

INCREASING THE EFFECTIVENESS OF NON-NUCLEAR SANCTIONS AGAINST IRAN

JOINT HEARING

BEFORE THE
SUBCOMMITTEE ON MONETARY
POLICY AND TRADE
AND THE
SUBCOMMITTEE ON TERRORISM
AND ILLICIT FINANCE
OF THE
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INCREASING THE EFFECTIVENESS OF NON-NUCLEAR SANCTIONS AGAINST IRAN

Tuesday, April 4, 2017

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MONETARY POLICY AND TRADE, AND
SUBCOMMITTEE ON TERRORISM AND ILLICIT FINANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittees met, pursuant to notice, at 2:39 p.m., in room 2128, Rayburn House Office Building. Hon. Andy Barr [chairman of the Subcommittee on Monetary Policy and Trade] and Hon. Stevan Pearce [chairman of the Subcommittee on Terrorism and Illicit Finance] presiding.

Members present from the Subcommittee on Monetary Policy and Trade: Representatives Barr, Williams, Pittenger, Huizenga, Love, Hill, Emmer, Mooney, Davidson, Tenney, Hollingsworth; Moore, Sherman, Foster, and Vargas.

Members present from the Subcommittee on Terrorism and Illicit Finance: Representatives Pearce, Williams, Pittenger, Rothfus, Messer, Tipton, Poliquin, Love, Hill, Emmer, Zeldin, Davidson, Budd, Kustoff; Perlmutter, Maloney, Lynch, Foster, Delaney, Sinema, Vargas, and Gottheimer.

Chairman BARR. The subcommittees will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittees at any time.

Also, without objection, members of the full Financial Services Committee who are not members of the Subcommittee on Monetary Policy and Trade or the Subcommittee on Terrorism and Illicit Finance may participate in today's hearing.

Today's hearing is entitled, "Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran."

I now recognize myself for 2½ minutes to give an opening statement.

As chairman of the Monetary Policy and Trade Subcommittee, it is a pleasure for me to join Chairman Pearce and my colleagues on the Terrorism and Illicit Finance Subcommittee in holding this joint hearing.

It is no secret that Washington has been deeply divided over how to confront Iran's nuclear ambitions both before and after implementation of the Joint Comprehensive Plan of Action (JCPOA). This hearing, however, is not about the JCPOA per se, and I am hopeful that we can find common ground in addressing Iran's non-

nuclear activities, including terrorism, weapons procurements, and regional destabilization.

Since the agreement's implementation day in January of 2016, Iran has continued to sponsor Hezbollah and other militias in the region. Its support for the Assad regime alone, including the use of planes to airlift military supplies, has helped claim an estimated 400,000 lives.

Last April, even President Obama suggested that the Iranians were violating the spirit of the deal by engaging in these activities. Rather than be deterred, Iran went on in October to sentence three Americans to long prison terms on bogus charges.

In January of this year, the country tested a ballistic missile, in violation of U.N. Security Council Resolution 2231. And this very morning, just as Boeing was announcing new sales to Iran, we learned that dozens of Syrian civilians, including at least 11 children, were gassed in a chemical weapons attack.

If Republicans and Democrats can agree that intensifying non-nuclear sanctions is key for our national security, then we should think of new ways that deepen their impact on Iranian behavior. Iran's continued illicit activities underscore that we must not be complacent. Non-nuclear sanctions are more than a form of condemnation. We should expect them to undermine Iran's capabilities and influence Iranian policies.

In closing, I want to emphasize that U.S. sanctions are directed against an authoritarian government, not the many ordinary Iranians who denounce terrorism and welcome closer relations with our country. These Iranians know the regime has failed them for decades, and they know that the only choice for Iran is to abandon its anti-Western, anti-Semitic, violent extremism. Our sanctions should make that choice as explicit as possible.

The Chair now recognizes the gentlelady from Wisconsin, the ranking member of the Monetary Policy and Trade Subcommittee, Congresswoman Moore, for 2½ minutes for an opening statement.

Ms. MOORE. Thank you so much, Mr. Chairman.

And I thank the panel for joining us.

I have been on record in support of the Joint Comprehensive Plan of Action, negotiated and implemented by President Obama to derail Iran's nuclear ambitions. That being said, I am going to use this time to discuss President Trump's ongoing and increasingly problematic foreign and business entanglements.

PBS reports that Trump engaged in a business deal with a money launderer with supposed ties to the notorious Iranian Revolutionary Guard Corps, a Mr. Anar Mammadov. The project was a hotel in Baku, Azerbaijan. Ivanka was involved, as well.

That's one example, but these political and financial entanglements between "bad hombres" and Trump keep cropping up. We have a Commerce Secretary who was former vice chair of the Bank of Cyprus, a bank that participated in deals with unsavory, criminal-backed individuals and the Russian state-run bank Sberbank, which is subject to U.S. and EU sanctions.

We have jaw-dropping allegations that rise at least to a probable cause case against Trump associates and family members, such as Manafort, Page, Tillerson, Flynn, Stone, Ivanka, and her husband, Jared Kushner. These are troubling financial ties to the Kremlin,

Iran, or the Chinese government, saying nothing of his D.C. hotel or the Mar-a-Lago, which are gross conflicts that should not be permitted to continue for one more second.

These communities should use our subpoena power to bring some of these people in to testify under oath to this joint committee so we can get a better understanding of these ties, and the American people deserve to know.

It is a Pyrrhic exercise to go over the JCPOA over and over again when the Trump Administration has invited all of the world's worst actors into the White House in order to enrich him and his family, like this Third-World-like kleptocracy that would make Ferdinand Marcos blush.

And, with that, I yield my remaining 27 seconds to Mr. Perlmutter.

Mr. PERLMUTTER. I have my own time, so keep going.

Ms. MOORE. Oh, you do? No, I am done. I am yielding back.

Chairman BARR. Okay. The gentlelady yields back.

And the Chair now recognizes the gentleman from New Mexico, the chairman of the Terrorism and Illicit Finance Subcommittee, Congressman Pearce, for 1½ minutes for an opening statement.

Chairman PEARCE. Thank you, Mr. Chairman.

New to the Financial Services Committee in the 115th Congress, the Terrorism and Illicit Finance Subcommittee has the direct mission of interpreting to the greatest extent possible the financial support networks of national security interests. Our new subcommittee is honored to join Chairman Barr's Monetary Policy and Trade Subcommittee this afternoon to assess the current state of Iran's non-nuclear sanctions.

First designated as a state sponsor of terrorism in 1984, Iran has grown into the global leader in terrorist financing. The message is clear: Despite our Nation's best efforts, Iran continues to be the foremost sponsor of terrorism globally. This is not anecdotal or subjective; the U.S. State Department's annual country report on terrorism has continually listed Iran as the top illicit financier, and the most recent report stated that Iran remains the foremost state sponsor of terrorism.

From its continued support and assistance to the Assad regime in Syria, to its financial backing of Hezbollah and its reliance on its intelligence and security arms, the Islamic Revolutionary Guard Corps, the IRGC, and its elite Quds Force, Iran has been near-impenetrable to U.S. and international sanctions. No silver bullet exists to prevent and impede Iran's actions. Despite the U.S. and international sanctions, combined with a stagnant oil market in 2015, Iran continued to fund and supply international terror groups even when it was to the detriment of its own people and economy.

Today's hearing, therefore, begins a much-needed conversation: Where has the United States succeeded and where has it failed in its targeted actions against Iran? What actions, if any, can the Financial Services Committee take? What actions should be avoided?

I thank our witnesses for being here today, and I thank Chairman Barr for holding this important joint hearing. I look forward to the conversation, and I yield back.

Chairman BARR. Thank you.

The Chair now recognizes the gentleman from Colorado, the ranking member of the Terrorism and Illicit Finance Subcommittee, Congressman Perlmutter, for 2½ minutes.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

I would like to introduce into the record a letter dated March 30, 2017, from Senators Brown, Feinstein, and Cardin to James Comey, and also an article from The Washington Post dated April 3, 2017, concerning—both of them have as their subjects the Islamic Revolutionary Guard Corps that Congressman Pearce was just referring to.

Chairman BARR. Without objection, it is so ordered.

Mr. PERLMUTTER. I thank the gentleman from Kentucky. I also thank my friend from New Mexico and Ms. Moore from Wisconsin.

There are several important questions before us today. First, I assume my friends on the other side of the aisle are going to bring forth some questions about the JCPOA, which I call a nuclear non-proliferation agreement. And we just want to see exactly how that has transpired or how it has worked so far. I think it has reduced nuclear tension in the world, but, even so, we all agree Iran and, in particular the IRGC, is a real threat and destabilizing force in the Middle East.

The IRGC is heavily involved in just about every aspect of the Iranian economy, including oil, construction, and banking. And with vast shell corporations and commercial interests all over the world, the IRGC strategically and conspicuously moves money through its many front businesses, and we need to understand the beneficial ownership of those businesses.

We also need to understand—to the degree that Russia is supporting Iran and the IRGC, we want to see exactly how that kind of funding exists. So the new subcommittee that we have formed here is Terrorism and Illicit Finance, and we want to see the connections to this potential money laundering that is going around that is funding terrorism around the globe. And I think, in particular, we have to see the activities of the IRGC as well as their connection to Russia, which is using Iran as kind of a place to advance its interests in the Middle East.

And, with that, I yield back to the Chair, and I look forward to the testimony of our witnesses today.

Chairman BARR. Thank you.

The gentleman yields back.

The Chair now recognizes the gentleman from North Carolina, the vice chairman of the Terrorism and Illicit Finance Subcommittee, Congressman Pittenger, for a 1-minute opening statement.

Is Mr. Pittenger here?

Mr. Pittenger is not here, so we will go ahead and turn to our witness testimony.

Today, we welcome the testimony of Mr. Behnam Ben Taleblu. He is a senior Iran analyst at the Foundation for Defense of Democracies (FDD). Previously, Ben Taleblu served as a nonresident Iran research fellow and Iran research analyst at FDD. Ben Taleblu frequently briefs Washington audiences on a host of Iran-related issues. Ben earned his master's degree in international relations from the University of Chicago.

Mr. J. Matthew McInnis is a resident fellow at the American Enterprise Institute, where he focuses on Iran, specifically its intentions, strategic culture, military power, and goals. Previously, Mr. McInnis served as a senior analyst and in other leadership positions for the U.S. Department of Defense, including work with U.S. Central Command, from 2006 to 2013. Mr. McInnis has a master's degree in European studies from NYU and a master's degree in international relations from the Johns Hopkins School of Advanced International Studies.

Dr. Suzanne Maloney is a senior fellow at the Brookings Institution. She is deputy director of the foreign policy program at Brookings. Dr. Maloney previously served as an external adviser to senior State Department officials on long-term issues related to Iran. Before joining Brookings, she served on the Secretary of State's policy planning staff as Middle East adviser for ExxonMobil Corporation, and director of the 2004 Council on Foreign Relations task force on U.S. policy toward Iran. She holds a doctorate from the Fletcher School of Law and Diplomacy at Tufts University.

And Dr. Emanuele Ottolenghi is a senior fellow at the Foundation for Defense of Democracies, and an expert at its Center on Sanctions and Illicit Finance, focused on Iran. Prior to joining FDD, Dr. Ottolenghi headed the Transatlantic Institute in Brussels, and taught Israel studies at St. Anthony's College, Oxford University. Dr. Ottolenghi obtained his Ph.D. in political theory at the Hebrew University of Jerusalem.

Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. And without objection, each of your written statements will be made a part of the record.

Mr. Behnam Ben Taleblu, you are now recognized for 5 minutes.

STATEMENT OF BEHNAMEH BEN TALEBLU, SENIOR IRAN ANALYST, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. TALEBLU. Thank you very much, Chairmen Barr and Pearce, Ranking Members Moore and Perlmutter, and distinguished members of the Committee on Financial Services. On behalf of the Foundation for Defense of Democracies, thank you for providing me with this opportunity to testify, particularly alongside such a distinguished panel.

Today, I will discuss the Islamic Republic of Iran's non-nuclear threats and how best to counter them.

Despite being called comprehensive, the JCPOA nuclear deal overshadowing this discussion was anything but. It does not address delivery of vehicles for nuclear weapons like ballistic missiles. It also does not address Tehran's illicit financial activities, support for terrorism, regional destabilization, and flagrant human rights abuses.

These issues constitute Iran's enduring non-nuclear threats. They are enduring because they are the same issues that have made and kept Iran an international pariah for over 3 decades. Worse, they are threats that the JCPOA accentuates.

According to FDD's survey of open-source English and Persian language reporting on Iran, Iran has launched up to 14 ballistic missiles since inking the deal. Such behavior defies the annex of UNSCR 2231 codifying the accord. These include two upgrades to

a solid-fuel, short-range ballistic missile, a new medium-range ballistic missile that allegedly has a maneuverable reentry vehicle, and a ballistic missile bearing a proclamation threatening the state of Israel with genocide.

According to the former Director of National Intelligence, Iran currently possesses the largest arsenal of ballistic missiles in the Middle East. This arsenal of lethality is enhanced by flight testing and domestic refinement.

Iran also continues to exemplify the “state sponsor of terrorism” epithet bequeathed to it by the State Department 3 decades ago. For the past 5 years, however, Tehran has furnished the Assad regime in Syria with money, men, and munitions so that it can continue the war against its own people. Iran is also creating something of a Shia internationale, marshaling zealous Shias from around the region, including Iraq, Pakistan, and Afghanistan, to fight and die in Syria.

Elsewhere, Tehran relies on a tried-and-true method: distributing low-cost weaponry, like anti-tank missiles, to jurisdictions of weak central authority. Nowhere exemplifies this better than Yemen. Despite a ban on arms transfers in UNSCR 2231, weapons transfers to Yemen have been seized at least 4 times by coalition forces.

Iran’s illicit financial activities also continue undermining the integrity of the rules-based financial order. These activities involve the movements of money to illicitly procure parts and technology for Iran’s missile program as well as sponsoring terrorist activities.

However, even innocuous-looking transactions may involve illicit actors. Iran remains designated by the U.S. Treasury Department as a “jurisdiction of primary money-laundering concern.” The hesitancy exhibited by European banks towards doing business with Iran is indicative of this status, in addition to their concerns over institutions which lack anti-money-laundering controls.

Fortunately, nowhere in the JCPOA is the U.S. restricted from using diplomatic, informational, military, and economic tools to challenge these activities. By enforcing existing sanctions and levying conduct-based nonnuclear ones, Congress and the Administration can signal that there is a strategy guiding Washington’s Iran policy.

Such a policy would have three goals: punishment for past illicit activities; coercion to alter Iran’s calculus to cease its present bad behavior; and deterrence to forestall prospective bad behavior.

In my written testimony, I have provided four likely scenarios that would require coercive economic measures based on Iran’s existing capabilities and intentions. I also offer 10 broader recommendations, like new reporting requirements to enhance existing sanctions; targeting Iran’s IRGC pursuant to two additional Executive Orders; using the Global Magnitsky Act to target corrupt Iranian entities; and developing graduated, sector-specific sanctions on Iran’s domestic ballistic missile supply chain to neatly complement the web of export controls already in place. I can also speak to nonstatutory measures, if asked, in the Q and A.

In my written testimony, I similarly explain and refute Iran’s claims that such actions violate the deal. They do not. These arguments can be overcome if the U.S. adheres to three principles: one,

calling Iran's bluff and walking away from the deal in response to such measures; two, contesting Iran's narrative that it is a member of the international community in good standing; and three, putting the spotlight on Iran through sophisticated use of the bully pulpit.

Additionally, the U.S. should not fall for arguments about a perceived lack of sanctions relief when it has already lived by its deal requirements. To quote Adam Szubin of the Treasury Department, "The JCPOA is an international agreement, not a cashier's check."

While sanctions relief has made it harder to influence Iranian behavior, it is still not impossible. Congress and the Administration have the capability to push for a change in behavior by imposing costs. However, as in most international crises, the balance of resolve will matter just as much, if not more, than the balance of capability.

I thank you very much for your time and attention, and I look forward to answering your questions today.

[The prepared statement of Mr. Taleblu can be found on page 81 of the appendix.]

Chairman BARR. Thank you.

Mr. Matthew McInnis, you are now recognized for 5 minutes.

**STATEMENT OF J. MATTHEW MCINNIS, RESIDENT FELLOW,
THE AMERICAN ENTERPRISE INSTITUTE**

Mr. McINNIS. Thank you, Chairman Barr, Chairman Pearce, Ranking Member Moore, Ranking Member Perlmutter, and distinguished committee members. Thank you for this opportunity to testify today on this important issue.

Some had hoped that after the implementation of the JCPOA, Iran would moderate its support to proxy and terrorist groups, restrict its ballistic missile testing and cyber activities, and refrain from risky and unprofessional actions at sea in the Persian Gulf. However, we have seen all of these activities not only continue but increase since the nuclear deal.

As U.S. CENTCOM Commander General Joseph Votel stated in testimony before the House Armed Services Committee last week, "Iran poses the greatest long-term threat to stability in this part of the world."

Why is Iran such a disruptive force in the region?

Since the 1979 Islamic Revolution, reshaping the Middle East under its political and ideological image has driven Tehran's foreign policy. The wars in Syria, Iraq, and Yemen, along with new resources from the nuclear deal, have brought us to an inflection point in Iran's strategy in the region. Tehran is turning its traditional network of proxies, led by Lebanese Hezbollah, into a transnational army that can conduct hybrid warfare and operate from Beirut to Basra to Sana'a, with Shia militias drawn from across South Asia and the Middle East. These forces are led by the IRGC, with an estimated quarter-million personnel potentially responsive to their direction.

In addition to proxies, Iran's efforts to dominate the region extend to more traditional military forces. Tehran has historically lacked sufficient air and land forces to project conventional power beyond its borders. Ballistic missiles and its asymmetric naval

forces in the Persian Gulf have served as substitutes. A critical question following the JCPOA is whether Iran can or will use its new resources to successfully modernize its military and permanently alter the regional balance of power in the coming decades.

So how do we stand up to Iran's destabilizing activities and begin to dismantle Tehran's global terror network? The United States needs to reinvigorate a well-coordinated political, economic, military, and intelligence campaign against Iran's malign influence. A better sanctions strategy should be nested at the heart of this effort, given at least 20 percent of Iran's GDP is now under the Guard's control.

The IRGC owns the state's largest construction firm, Khatam-al-Anbiya, and holds major stakes in the banking, energy, extractive, and manufacturing sectors. The Guard also operates most Iranian ports and is deeply involved in the commercial shipping and aviation sectors, which are critical elements in building and sustaining its proxy and terror networks in the Middle East.

However, Washington needs to ask first what we want to accomplish with our sanctions, rather than focusing solely on the targets and means. With this in mind, any Iran sanctions strategy must first blunt and then diminish the foundations of the IRGC's destabilizing activities. Consequently, the United States should aim for these five objectives:

First, we should suppress Iran's military modernization to maintain the U.S.'s and our allies' military superiority in the region. We should prevent Iran from making major military breakthroughs and maintain our deterrence advantage against Iran. We should seek to deter Russian and Chinese and other sales of the most advanced equipment to Iran through new sanctions and prevent any efforts to evade U.N. conventional weapons sanctions while they remain.

Second, we should starve the IRGC's financial fuel to weaken the Guard's ability to generate revenue from global markets and incentivize international divestment from IRGC-affiliated businesses.

Third, we should disrupt the IRGC's logistical abilities, including close monitoring of potential new sanctions and designations against Iranian commercial aircraft used by the IRGC for the illicit transport of weapons and personnel into Syria, Iraq, Yemen, and elsewhere.

Fourth, we should disrupt and deter Iran's ballistic missile program. We may not be able to stop the program entirely, but we can help push their program more in the box by disrupting their technological acquisition through additional sanctions.

Fifth, we should drive down Iran's internal confidence in the regime and its policies. To the degree that we can, the U.S. should expose, through sanctions, the regime's internal contradictions, corruptions, massive expenses on overseas adventures, and human rights violations.

There is an important caveat. Any new sanctions should not conflict, at least legally, with the JCPOA. However, any such sanctions can and likely should be part of a broader approach to shape the negotiating environment for a successor or supplementary agreement with Iran to address the key flaws of the nuclear deal.

I appreciate the opportunity to speak on this important topic and welcome your questions and comments. Thank you.

[The prepared statement of Mr. McInnis can be found on page 46 of the appendix.]

Chairman BARR. Thank you.

Dr. Maloney, you are now recognized for 5 minutes.

STATEMENT OF SUZANNE MALONEY, DEPUTY DIRECTOR, FOREIGN POLICY, AND SENIOR FELLOW, CENTER FOR MIDDLE EAST POLICY, THE BROOKINGS INSTITUTION

Ms. MALONEY. Thank you for the opportunity to appear before you today. I have submitted a statement for the record, noting that Brookings does not take institutional positions on policy issues.

In considering the non-nuclear threats posed by Iran, we must also recognize the dividends of the nuclear agreement. The accord addressed only one dimension of the Iranian threat, and, in those narrow terms, it has succeeded. Amidst the turbulence and tragedy that besets the Middle East today, the absence of constraints on Iran's nuclear capabilities would magnify the risks in terrible ways.

However, as my fellow panelists have stated, we can't ignore the finite ramifications of the deal. Hopes that the agreement would jump-start wider moderation in Iran's approach to the world have proven unfounded. Instead, Iran has continued to do what it has done consistently since 1979, deploying violence and subversion to extend its influence across the Middle East. It is consolidating a predominant position in the region and tentatively reorienting the regional order in its favor. As a result, the challenges posed by Tehran to U.S. interests and allies remain as relevant and as alarming as ever.

Understanding the motivations behind Iran's regional ambitions and its ballistic missile program are vital. Historical memory and years of violent challenge to the theocracy's existence have stoked an acute, abiding sense of insecurity amongst its leadership. Tehran prioritizes regime survival above all else, and self-preservation has become intertwined with a deeply ingrained conviction that the world, led by Washington, is bent on its eradication.

The consequences of this dystopian vision can be seen in Tehran's campaign to cultivate allies and proxies, bolster its indigenous deterrent capabilities, expand the revolution's strategic depth, and deploy violence and subversion across the region. Iran's regional adventurism has never enhanced the security or prosperity of the Iranian people, but it has helped keep the regime in power.

The experience of the past decade underscores the efficacy of sanctions when wielded wisely. Sanctions forced Iran to make concessions on its nuclear weapon program. However, it is not clear that new authorities are particularly useful or necessary for pushing back against Iran's non-nuclear threats.

The deal left intact significant restrictions on Iran's economy. Iran's worst actors, including those associated with the Revolutionary Guard, remain designated under existing sanctions, tainting, by extension, any company that deals with them. The Trump Administration can augment the list of designated entities at any time. The primary embargo on U.S. trade and investment in Iran

criminalizes even the most tangential involvement in the Iranian economy by U.S. firms, except for specific exemptions.

And all of these measures benefit from a number of powerful force multipliers, including a decade of intensifying restrictions and rigorous enforcement that has created a culture of compliance in the international business community.

The success of the nuclear sanctions has fostered the perception that these measures can serve as a silver bullet. However, there are few guarantees that new measures will provide sufficient disincentives to alter Tehran's longstanding patterns of regional power projection or revise the broad calculus of opportunism and insecurity that underlines its policies.

The long-term track record underscores the unfortunate reality: Iran's support for terrorism has never been driven primarily or even substantially by resource availability. In fact, Iran's most destructive regional policies have been undertaken and sustained even at times of epic constraints. Sanctions and lower oil prices have provided no remedy to Iran's efforts to extend its influence or its substantial investment in fueling and fighting conflicts in Iraq and Syria. These policies have a very low funding threshold for the Islamic Republic and an existential importance to the regime.

In addition, the sanctions regime that was constructed over the 12-year nuclear crisis benefited from an exceptional degree of multilateral support and consensus. Compounded by concerns beyond the nuclear file, and encouraged by a well-coordinated campaign that highlighted the non-sanctions risks to business with Iran, many of Iran's major trading partners gradually committed to sever economic ties with Tehran.

Multilateralism is key to sanctions adherence and creates an interlocking and often redundant web of pressure that proves far stronger and more persuasive than the sum of its parts. At this time, Washington does not have, nor can we quickly instigate, anything close to the level of multilateral consensus that was built slowly and through fortuitous confluence on the nuclear issue.

We must also anticipate Iran's responses to sanctions, both in terms of bandwagoning to try to hedge by developing further business and diplomatic ties with Europe and the rest of the world, as well as its retaliatory capacity against U.S. Forces in the region.

Like most complex challenges, the problem of Iran has resisted quick fixes for nearly 4 decades. American leadership will remain essential.

Thank you.

[The prepared statement of Dr. Maloney can be found on page 38 of the appendix.]

Chairman BARR. Thank you.

And, Dr. Ottolenghi, you are recognized for 5 minutes.

**STATEMENT OF EMANUELE OTTOLENGHI, SENIOR FELLOW,
FOUNDATION FOR DEFENSE OF DEMOCRACIES**

Mr. OTTOLENGHI. Chairmen Barr and Pearce, Ranking Members Moore and Perlmutter, and distinguished members of the committee, I thank you for the opportunity to testify today.

The Joint Comprehensive Plan of Action, or JCPOA, has emboldened Iran. In theory, under the JCPOA, the United States

can use non-nuclear sanctions to counter Iran's regional ambitions and ongoing support for terrorism. In practice, however, this measure has been rarely used, especially with regards to Iran's ongoing airlifts to the Assad regime and Hezbollah.

The JCPOA lifted U.S. sanctions against Iran's civil aviation sector exactly at the time when the sector became vital to Tehran's war efforts in Syria. Put simply, the JCPOA has made it legal to sell aircraft to airlines that are accessories to Assad's war crimes and keep Hezbollah armed to the teeth.

The activities of Iran's aviation sector have exposed the inadequacy of the JCPOA caveat that licensed items and services must be used exclusively for commercial passenger aviation.

Currently, at least five Iranian and two Syrian commercial airlines are engaged in regular military airlifts to Syria. These carriers have been crisscrossing Iraqi airspace since 2011 but have increased their tempo since the summer of 2015 when Iran and Russia coordinated their efforts to save Assad's regime. Flight-tracking data indicate that from implementation day on January 16, 2016, to March 30, 2017, there were 696 flights from Iran to Syria, only 6 of which were carried out by Iran's Air Force.

In 2011, the Department of the Treasury blacklisted Iran Air and Mahan Air because they colluded with Iran's Islamic Revolutionary Guard Corps, or IRGC, in these military airlifts. It also blacklisted Syrian Arab Airlines in 2015 and Sham Wings in 2016 for transporting weapons and fighters to Syria. These airlines are not ferrying civilian passengers between Tehran and Damascus.

The two primary Iranian actors in the airlifts are Iran Air and Mahan Air, with a combined 345 out of 696 flights, almost half of the total.

Mahan Air remains under U.S. sanctions because of its support for terrorism. Iran Air, by contrast, is no longer sanctioned, despite its material support to the IRGC and Syria's internal repression, despite weapons transfers to Syria and the use of deceptive practices to conceal its cargo. The U.S. Government delisted Iran Air because of a political agreement. There is no evidence that there has been a change of behavior.

It is extremely likely that Iran Air is still an active participant in the airlifts. This conclusion is based on the following: There is no justification for frequent commercial flights to Damascus. Syria is a war zone with little tourism or commerce. Yet, it is served almost twice daily.

Iran Air flies to Damascus twice a week. The flight cannot be purchased on Iran Air's booking website or through travel agencies, and the booking website does not include Damascus among its destinations from Tehran's international airport, where the flights usually originate. And, lastly, Iran Air flights to Damascus occasionally make unscheduled stopovers in Abadan, an IRGC logistical hub for the Syria airlifts.

Iran Air's participation in the Syria airlifts would make the airline eligible for renewed sanctions. Congress and the Administration should instruct the intelligence community to investigate this. If Iran Air's participation is confirmed, the Administration should immediately revoke OFAC's licenses authorizing sales of aviation

industry items and services to Iran Air, resanction the airline, and release its entire fleet.

That is why Congress should also demand transparency about aircraft sales to Iran. The financial terms of the Boeing and Airbus deals are surprisingly opaque. If Iran Air is found to be ferrying weapons and fighters to Syria, the two manufacturers would unwittingly become accessories to war crimes. Congress should demand that Boeing and Airbus make those details fully public.

The United States should also renew its focus on Mahan Air, Iran's largest commercial carrier and the most active participant in the airlift. Existing U.S. sanctions have not stopped European and Asian companies from transacting with Mahan. It is not that U.S. sanctions are ineffective; it is rather that the U.S. has so far declined to impose sanctions against those who provide material support to Mahan. It is time to reverse that and punish Iranian and foreign providers of material support to Syria's airlift and its participants—first and foremost, Mahan Air.

FDD research has identified Abadan as the main IRGC logistical hub for the airlifts to Syria. Abadan and other airports where flights originate should also be designated.

And, finally, to conclude, the U.S. also should consider: designating the Abadan Refining Company for selling jet fuel to the aircraft involved in the airlifts; sanctioning the insurers of the aircraft; and targeting the financial institutions involved.

Thank you so much for your time, and I look forward to questions.

[The prepared statement of Dr. Ottolenghi can be found on page 52 of the appendix.]

Chairman BARR. Thank you.

The gentleman's time has expired.

And the Chair will now recognize himself for 5 minutes for questions.

Mr. Taleblu, what specific non-nuclear sanctions and additional designations do you believe would be most effective in combating Iranian sponsorship of terrorism?

Mr. TALEBLU. Thank you very much for your question, Congressman.

The immediate one that comes to mind is to pursue sanctions on Iran's Islamic Revolutionary Guard Corps pursuant to Executive Order 13224. Getting that listed, I think, is key because that is one of the major drivers of Iran's non-nuclear threats. Iran's Islamic Revolutionary Guard Corps Aerospace Force, for instance, is the force that oversees Iran's ballistic missile program.

Going after the IRGC pursuant to that executive order and then asking the intelligence community and the Administration for additional targets that liaise with the IRGC and can be targeted for being shells for this entity should be gone after, both at the statutory level and at the Administration.

Chairman BARR. Mr. McInnis, on a related note, as you may know, Senator Ted Cruz in January introduced legislation calling on the State Department to assess IRGC's suitability for designation as a foreign terrorist organization.

What are your thoughts about that? And do you agree with your colleague that designation of IRGC under 13224 would be prudent?

Mr. MCINNIS. Yes. I think for designation as a foreign terrorist organization, as an FTO, there is certainly a moral argument to make for that. I think from a practical standpoint, designation under Executive Order 13224 is most likely sufficient to achieve your objectives.

I think that there is a great consideration, as Dr. Maloney pointed out, that as we look at potential retaliation from the Iranians, not to say that should stop us from taking any of these measures, but we need to be very much prepared for potential repercussions insofar as how that may change rules of engagement with the IRGC, both at sea and with our forces there in places like Iraq and elsewhere.

I think these are things that we need to be thinking through. And so these are areas that I think designation under EO 13224 probably gives us what we want, but I am certainly very much drawn to the moral argument of designating under FTO. And I also agree that that is the pathway that will give us the most effect for pulling back on support for terrorism.

Chairman BARR. Thank you.

And, Dr. Ottolenghi, Dr. Maloney warned against downplaying the dividends of the nuclear deal and alleviating the urgency of Iran's nuclear ambitions. But given the forward movement of Iran's ballistic missile program, given the tests using missiles that are capable of carrying nuclear payloads, do you disagree with that analysis or do you agree with that analysis?

And can you speak to whether or not these non-nuclear activities have been emboldened as a result of lingering questions about the reliability of the inspections regime?

Mr. OTTOLENGHI. Thank you for your question. Two points.

First of all, I think that when one looks at a nuclear program, of course the question of delivery systems is essential and a part of a nuclear program. The omission of the ballistic missile program from the JCPOA of course indicates that this is by no means a comprehensive arrangement, as my colleague pointed out in his statement, but it also creates an opportunity for the United States to target sectors of the Iranian economy that are complicit in the Iran ballistic missile program.

Whether it is the financial institutions that facilitate the transactions for procurement, the companies that procure, the extracting activities for the raw materials, or the transport or the insurance of the vectors that carried the technology and the procurement for the missile program, all these are areas and opportunities for targeting.

As for whether the regime has been emboldened, I think that that is very clear—not just emboldened but also provided additional resources to pursue its most nefarious activity more actively and assiduously.

Chairman BARR. Thank you.

My time has expired, so the Chair will yield back and now recognize the gentlelady from Wisconsin for 5 minutes.

Ms. MOORE. Thank you so much.

And I thank the panel again. As I expected, we have some excellent testimony here. So much information, so little time. Let me just start with Mr. McInnis.

You had a very well-prepared presentation. I was looking at your recommendations for the five things we need to do, and I was focusing in particular on starving the IRGC's financial fuel.

And so, in that context, would you agree that there might be some threat or some problem with the article that I believe Mr. Perlmutter entered into the record, where it demonstrates that there was a lot of contact between Donald Trump, in trying to establish the Baku tower, and not only this Mammadov family—would you see that as problematic?

Mr. MCINNIS. In that particular incident, even though I was asked to comment on that particular situation earlier, I don't know the full details of that situation—

Ms. MOORE. Okay. Thank you, then.

Mr. MCINNIS. Yes.

Ms. MOORE. Thank you.

Let me ask you about your "disrupt and deter Iran's ballistic missile program." You say that they are not going to even give up or meaningfully limit its ballistic missiles. And as I look through, just briefly peruse the Iran sanctions, even though I think Mr. Taleblu mentioned some things they are doing, they are still substantially in compliance. Is that your understanding, as well? Even though they are kind of showing off, because they have to show their people that they are not caving—but they are in compliance. Would you agree?

Mr. MCINNIS. This has been the main point of contention. Certainly, the issue is with the new language under U.N. Security Council Resolution 2231 that implemented the JCPOA, the language there insofar as what they are doing with their ballistic missile program. That is, they are using their ballistic missiles—from their perspective, they are not nuclear-capable weapons. And, from their perspective, the new language that was used to implement the deal, from their perspective, allows them to do what they are doing.

Ms. MOORE. Okay.

Mr. MCINNIS. And, unfortunately, not all members of the U.N. Security Council interpret that the way we do.

Ms. MOORE. Okay. Thank you for that.

Dr. Maloney, we have talked a lot about Iran's influence in Syria, but would you say that Putin also has a stake in keeping Assad in power? And do you think that the Russian banks can help facilitate financial transactions to Assad in Syria?

Ms. MALONEY. The Russians are clearly a major player in Syria and in preserving and stabilizing the Assad regime. They do have distinct interests from those of the Iranians, and, clearly, that is an area where both Congress and the Administration might usefully try to separate those two parties.

Ms. MOORE. Right. And so we need to continue to be vigilant and cautious about relationships with the Russians. We are focusing on the Iran sanctions, but a workaround could be Russia. Would that be correct?

Ms. MALONEY. Russia would be key to any solution in the Syrian conflict, and we should be using all of the resources at our disposal to try to force the Russians to find a political solution rather than participating in what is effectively a war crime.

Ms. MOORE. Exactly.

Okay. I think I have one more question. I think it is for Mr. Taleblu.

Are you concerned that Iran is on the verge of being actively weaponizing their missile systems in the near future?

Mr. TALEBLU. Thank you very much for your question.

I am actually worried about the conventional and asymmetric threats that Iran's ballistic missiles pose. This is because I, like most Members of Congress, read the yearly DNI statements before the body, and I worry that they are continuously assessed to be the largest force in the Middle East.

So, regardless of weaponization, which we should have better access to but the Supreme Leader has not allowed inspections of military facilities, regardless of that caveat, which is a big one, I am concerned about the conventional and asymmetric capabilities of this force.

Ms. MOORE. Thank you.

And thank you, Mr. Chairman, for your indulgence.

Chairman BARR. The gentlelady's time has expired.

And the Chair now recognizes the chairman of the Terrorism and Illicit Finance Subcommittee, Congressman Pearce of New Mexico, for 5 minutes.

Chairman PEARCE. Thank you, Mr. Chairman.

Mr. McInnis, your report deals more with the economic impacts of having, I guess, the IRGC involved in economic activities. What is the scope of that? In other words, you say about 20 percent of the economy, but is it import/export or domestic economy? Tell me a little bit about that. And I have several questions, so the brief version would be better.

Mr. McINNIS. Yes, I think that the IRGC—certainly their domestic economy, it could be a minimum 20 percent from their construction sectors, telecommunications, mining, manufacturing. But there is certainly plenty involved in the export/import as well, so, you have a full spectrum there.

Chairman PEARCE. Who are their primary trading partners from outside the country? And when you study it, do you see any difficulties with that part of the economy being diverted?

Mr. McINNIS. Certainly, Iran's major trading partners tend to be India or China. On arms sales, it is obviously Russia. And, of course, now that the sanctions are down, they are trying to grow significantly with the Europeans.

Chairman PEARCE. How about oil sales? What are they doing in oil sales since the lifting of the embargo and the sanctions on that?

Mr. McINNIS. Oil sales are recovering up to almost pre-sanctions level, mostly to Asia and South Asia but also recovering with Europe quite nicely.

Chairman PEARCE. About how many barrels a day?

Mr. McINNIS. I don't have those right at—

Chairman PEARCE. Do any of you have that information?

Ms. MALONEY. They have hit 3 million barrels a day in exports.

Chairman PEARCE. Okay.

So, on page 4, Mr. McInnis, you talk about reinvigorated economic warfare campaign against the IRGC. And what would that look like, this reinvigorated economic warfare campaign? What

would that look like to us nonparticipants, the people who don't study this every day? You all would see very minor changes; we wouldn't, necessarily.

Mr. MCINNIS. I think that we had during the sanctions period a fairly aggressive effort, especially prior to the negotiations beginning in 2013, we had a fairly aggressive effort against the IRGC on a variety of fronts, of which one was economics. And I think that there was certainly a decision to hold back on—partly tied to fears that provoking IRGC reaction would potentially disrupt the diplomatic efforts tied to the JCPOA. And I think there is still a degree of that. There was, up until the end of the Obama Administration, a certain fear of that continuing.

I think the current Administration is weighing those types of policy options of how much pressure can be put against the IRGC and weighing potential reactions and being able to maintain the deal and what they want to do with the deal. I am not sure where those policy debates are right now.

But I think those are all things that—what we were trying to do prior to the negotiations beginning in 2013, I think that can be reinvigorated and can be, frankly, made stronger. And that can be done against Hezbollah, against the Iraqi Shia militia groups.

Chairman PEARCE. Yes, I—

Mr. MCINNIS. It can be quite aggressive.

Chairman PEARCE. I get the idea.

Mr. Taleblu, in 2010 and 2011, Iran was financing Hezbollah at about \$100 million to \$200 million. Where was that money coming from? And has that flow increased now after the agreement?

Mr. TALEBLU. Thank you very much for your question.

The most popularly cited figure is \$100 million to \$200 million, as you mentioned, and that is pursuant to a 2010 military power of Iran report produced by the Department of Defense. It is the most popularly cited because most of Iran's Hezbollah funding, like its illicit funding of other terrorist groups, is off the books. You can't necessarily find it as an IRGC line item, even though a colleague of mine who did do an assessment of "the IRGC budget" noted that they are receiving a 24-percent windfall in their budget allocation this year. I would note, however, that it would be hard to find on Iran's official reporting.

Chairman PEARCE. Okay.

Let me squeeze one more question in. Is it possible to know, kind of, where all the streams of funding are coming from, or is that a subject that is not easy to penetrate? I think you just alluded to that, but go ahead and touch on that, if you can.

Mr. TALEBLU. It is challenging but not impossible. I think we should definitely task the intelligence community with finding these streams.

You mentioned the funding in Syria, for instance. Hezbollah has been marshaled by Iran in Syria. Hezbollah was essential to helping bail out the city of Qusayr in 2013 and the siege of Aleppo in 2016. So I would assume you would get significant funding spikes in those years.

Chairman PEARCE. All right.

Thanks, Mr. Chairman. I yield back.

Chairman BARR. The Chair now recognizes the ranking member of the Terrorism and Illicit Finance Subcommittee, Mr. Perlmutter from Colorado.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

Dr. Ottolenghi, you said that there were coordinated efforts, I think were your words, to save the Assad regime between Iran and Russia. What did you mean by that?

Mr. OTTOLENGHI. I mean that both governments, both regimes in Russia and in Iran, are invested in the survival of the Assad regime and its continuing control, if not of the whole country, at least of part of it.

Mr. PERLMUTTER. So I guess one of the things that the Terrorism and Illicit Finance Subcommittee deals with are sanctions, whether it is North Korea, Russia, Iran, or a number of other players.

In the coordination effort, do you see any assistance by Russia of Iran or the IRGC financially as they participate either with Hezbollah or Assad?

Mr. OTTOLENGHI. Thank you.

I have seen reports in the media, which I cannot personally confirm, of a variety of coordinated activities of this kind, particularly transfers of weapons from Russia.

I also, when I monitor the airlifts from Iran to Syria, I do see frequently Russian planes crisscrossing the same air corridors. They follow the same routes. I am not in a position to tell you whether those planes are just supplying the Russian forces on the ground or supporting the Russian aviation operations inside Syria.

We do know from open sources, public reports, that the Russians have used one airbase in Iran, so there obviously has been some type of transaction there. And I would highly recommend that in an intelligence review of the airlifts some attention is paid to what Russian Air Force planes are carrying to Syria as well.

Mr. PERLMUTTER. Thank you.

And I would turn to the other panelists. Coordination between Russia and Iran, particularly with respect to Hezbollah and Assad, are you aware of any funding streams from Russia to the IRGC or Iran generally?

Dr. Maloney?

Ms. MALONEY. The Russians play a relatively small role in the Iranian economy overall, but they have obviously been a long-term important supplier of weaponry to Iran.

In terms of the management of Hezbollah and of the other Shia militias that are fighting under Iranian operational guidance in Syria, that is primarily Iranian-run, but clearly, there is coordination between the Iranians and the Russians on the overall state of the campaign—the Russians primarily from the air, and the Iranians primarily on the ground. And that coordination extends to Hezbollah and the other Shia groups.

Mr. PERLMUTTER. Thanks.

Would either of you two gentlemen like to comment?

Mr. MCINNIS. I would just confirm what Dr. Maloney said and also add that what has been fascinating is watching how much Iran has learned from Russia in how to conduct and develop new forms of warfare as they have begun to do certain levels of integration of their campaigns there in Syria and, frankly, the fact that

the Russians are using Iranian air bases at times to launch their air strikes into Syria, which is from an Iranian ideological standpoint unprecedented. And it goes to the degree of how much the Iranians have had to shift their thinking and how they look at Russia as a potential ally.

And, of course, their long term, as they look at post-sanctions, conventional weapons sanctions, after the nuclear deal, the big investments they want to make in transforming their military, they are going to be very Russian-centric on that. And that is what I particularly worry about, is that could transform the region if they are allowed to do major investments with Russia.

Mr. PERLMUTTER. Mr. Taleblu?

Mr. TALEBLU. Thank you very much.

I want to echo most of the sentiments of the panel. High-level coordination could be seen by the visits of IRGC QF Commander Major General Qassem Soleimani's flights to Russia. I assume that flight to Russia actually had more of an impact on Iranian strategy in Syria than the more public one, where President Rouhani recently went to Russia and met with President Putin.

To Dr. Maloney's comment, I actually think Iran and Shia militias in general in Syria have a perverse form of what Stephen Biddle has called the modern military system. It is a perverse form of combined arms, non-Arab Shia militias as cannon fodder supplementing Russian airpower. So it is odd to watch but horrifying.

Mr. PERLMUTTER. Thank you.

Thanks, Mr. Chairman. I will yield back.

Chairman BARR. The gentleman yields back.

The Chair now recognizes the vice chairman of the Monetary Policy and Trade Subcommittee, Mr. Williams from Texas.

Mr. WILLIAMS. Thank you, Chairman Barr, and thank you, Chairman Pearce and all of our witnesses today.

Since 2011, Iran has been classified by the Treasury Department as a jurisdiction of primary money-laundering concern, a finding that is unaffected by the JCPOA. The Treasury Department determined that Iran's financial system, including the central bank, constitutes a threat to governments or financial institutions that do business with these banks.

Iran is also labeled, alongside North Korea, as one of the two high-risk and noncooperative jurisdictions by the Financial Action Task Force.

Last year, in his testimony before our Monetary Policy and Trade Subcommittee, Eric Lorber testified that, "the nature of the Iranian economy and the role of the government within the economy presents serious risks related to bribery and corruption, money laundering, and illicit financing." That is a combination.

But despite these multiple financial actions by Treasury, Hezbollah, which we know has sophisticated financial expertise, continues to exploit the internal financial system. Their ability to move and store illicit assets makes them dangerous to penetrating U.S. markets.

Many of these finance schemes flow right through the United States, and our ability to combat them remains challenging. So

some might say, despite these designations, Hezbollah's trade-based money laundering schemes have continued to expand.

So my first question, to any of the witnesses today, is this: The designation carried no immediate penalty, but it imposed additional requirements on U.S. banks to ensure against improper Iranian access to the U.S. financial system. So, in one of your opinions, has this been an effective designation? Any of you?

Mr. MCINNIS. I think the designation, especially when it comes to—if I am understanding the question correctly—Hezbollah, in particular, and Iran's deep, deep problems with money laundering, this is something that, the more the U.S. can do when it comes to exposing the problems of Iran's money laundering and toxifying, from my perspective, from the international community's perspective, toxifying these assets or these financial institutions, so that they are avoided, that does benefit long-term. Because, even as Iran finds ways around it, it makes it harder for Iran to move money, even if Iran still finds ways to get money and Hezbollah finds ways to get money. But, again, I know it is extremely challenging to have those types of effects that we want.

Mr. WILLIAMS. Okay. Thank you.

Dr. Ottolenghi?

Mr. OTTOLENGHI. Yes, thank you. If I may just add one point, at least 20 percent of Hezbollah's annual budget actually comes from trade-based money laundering outside the region. It comes from Latin America, mainly from the tri-border area of Argentina, Brazil, and Paraguay.

The U.S., through its Treasury designations, has targeted entities and individuals associated with Hezbollah involved in that type of trade-based money laundering, but those designations are more than a decade old. And because of collusion, complicity, or just plain negligence by local powers in that area of the world, most of these entities and individuals are still able to conduct business and remit finances back to Hezbollah.

So I think that the broader point is, within the context of the power of designations and sanctions, I think that what you need to continue is to have monitoring, enforcement, and updating of this information so that compliance can be updated all the time and, as Hezbollah finds new ways to pursue its illicit financial activities, these designations can catch up.

Thank you.

Mr. WILLIAMS. Okay.

Dr. Taleblu, should the new Administration consider any new non-nuclear sanctions, money laundering sanctions, cyber export controls?

Mr. TALEBLU. Yes. And, unfortunately, I do not have a Ph.D., despite my deepest academic desires for one, but thank you.

I actually think that there are a whole host of tools—military, economic, diplomatic, informational. But on the economic side, statutory specifically, we can go after ballistic missiles.

Dr. Ottolenghi mentioned that there is a whole-of-government approach Iran is taking to develop this potent ballistic missile threat. That means institutions that engage in research, such as engineering and physics. That means the companies that produce the transporter erector launchers (TELs) that move Iran's missiles

from silo to silo, from mobile launchpad to mobile launchpad. That means also going after the companies and entities that produce and procure solid and liquid fuel—this is the propellant that powers Iran's missiles—to go after the companies that produce and procure the aluminum tubes and the carbon fiber that actually allow Iran to develop these longer and wider-diameter and more high-strength medium-range ballistic missiles.

So there is plenty of space. The one of choice, I think, to deal with this threat—because Iran's 14 missile tests since the deal I think is a blatant violation and something that should be addressed more urgently than some of the other threats you mentioned. This is one area I think we can do a lot of damage.

Mr. WILLIAMS. Okay.

I yield back. Thank you.

Chairman BARR. The gentleman's time has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY OF NEW YORK. Thank you, so much, Mr. Chairmen and Ranking Members, for calling this hearing, and I also thank all of the panelists.

My first question is for Dr. Maloney. One of the key Iranian entities targeted by U.S. sanctions is the Islamic Revolutionary Guard. No sanctions have been lifted on the Guard. So business with the Revolutionary Guard remains off limits for U.S. companies. The CRS notes, however, that the exact relationship between the Revolutionary Guard and Iranian corporate or other entities is not always known precisely, which means that U.S. or European companies may be inadvertently doing business with Iranian companies that are fronts for the Revolutionary Guard. That would obviously undermine the effectiveness of U.S. sanctions against the Revolutionary Guard. What can we do to improve this, and how do we get better at identifying Iranian companies with ties to the Revolutionary Guard?

Ms. MALONEY. Thank you very much for your question, Congresswoman Maloney. This is, I think, an inordinate challenge for the U.S. intelligence community. What the Iranian economy has done over the course of the past 38 years is effectively privatized through crony capitalism. That is not limited to the Revolutionary Guard, but the Revolutionary Guard's expansion in the economy is very much emblematic of it.

What this means is that there are hundreds, possibly thousands, of spinoff companies, companies that have evolved from some part of the official government entity or parastatal entities that are formally associated with the Revolutionary Guard and moved into what is ostensibly the private sector of the Iranian economy. This makes it very difficult to distinguish between companies that are associated with the Guard formally, companies that are run or managed or work to the benefit of those who are former guardsmen who, in fact, might cooperate and collude with the Guard.

We have done an enormous amount of work, and some of my fellow panelists here work with organizations that can provide names of dozens and possibly larger numbers of companies that are associated with the Guard, but there is an almost infinite capacity within

the Iranian economy to proliferate economic organizations that have some connection with the regime in power.

Mrs. MALONEY OF NEW YORK. In America, law enforcement has targeted and put a spotlight on beneficial ownership laws that allow terrorists and others, gun runners and everyone else, to hide their assets by buying assets, and under beneficial ownership, they don't have to reveal who that person is.

I am wondering, is that a problem in the Middle East too and in Iran? And is this another way that the Guard is hiding money or able to easily access money by quickly selling real estate for a million dollars or so and having money for weapons? And I would ask you and any of the panelists to answer if you would like.

Ms. MALONEY. Let me just make a quick comment on that point, which is that what we have seen during the course of the year-plus of the implementation of the JCPOA is that the elected government within Iran does have an interest in trying to marginalize the role of the Revolutionary Guard and the economy, and some of the penalties that we have imposed on the Guard, including the FATF designation and the government's desire to get a clean bill of health from FATF have, in fact, assisted the government in trying to marginalize the role of the Guard. There have been instances, in fact, with Iranian banks reportedly refusing to lend to companies affiliated with the Guard.

And so I think a smart strategy of trying to marginalize the role of the Guard and particularly to penalize its economic activities would play into what are clearly divisions within the regime.

Mrs. MALONEY OF NEW YORK. Yes. And on the beneficial ownership, sir.

Mr. OTTOLENGHI. If I may add a point to reinforce what my esteemed colleague said and also provide an example which poses a dilemma to actually a U.S. company, we at FDD have identified an enormous number of IRGC-affiliated companies, but what we have seen clearly is that, oftentimes, the companies manage to keep well below the radar established by the criteria for ownership by the IRGC created by U.S. law and by the standards of the U.S. Treasury. In other words, oftentimes, although you can't prove 50 percent ownership, you see that they control the majority of the board and the chairmanship.

And here is the example that poses the great dilemma for a great U.S. company, and that is namely Boeing. Today Boeing has signed—or has announced a deal with Aseman Airlines to sell 30 737 MAX to the third national carrier of Iran. And here is the problem that Boeing will face. The CEO of Aseman Airlines is the former commander of the IRGC Navy. He was the commander of the IRGC Navy during the Iran-Iraq war when the IRGC Navy was trying to sink U.S. ships in the Gulf. He is the former deputy minister of defense. He is the former CEO of the Iran Aviation Industry Organization, a company, an entity under U.S. sanctions still after the JCPOA. He is the former head of the IRGC general staff. He is a professor of strategic studies at Imam Hossein University, the university of the IRGC that is still under U.S. sanctions. And he was Rouhani's first pick for Ministry of Defense before Dehghan was appointed.

This obviously is a great problem. Companies will go into the Iranian economy thinking that, because the ownership principle is met, they can deal with them, but actually they can't, because IRGC—

Chairman BARR. The gentlelady's time has expired.

Thank you.

Mrs. MALONEY OF NEW YORK. Thank you very much.

Chairman BARR. The Chair now recognizes the vice chairman of the Terrorism and Illicit Finance Subcommittee, Mr. Pittenger from North Carolina.

Mr. PITTENGER. Thank you, Mr. Chairman, for your excellent leadership in this important mission. And I thank each of you for being with us today. We really appreciate your commitment to this important work.

Addressing the issue of Section 311 and the JCPOA agreement as well, are there any banks, recognizing that there are no penalties involved for these—it is not very punitive of what has occurred with 311—that are still operating under the SWIFT authority to transfer money, that they are going about their business as usual?

No response? Does that mean there aren't any, or we don't know?

Mr. Ottolenghi?

Mr. OTTOLENGHI. I would make two points. One is we don't know. Three points, actually. One is we don't know, at least I don't.

Two, I would make the point that that is why it is so important to ensure full transparency in all of the large business deals that are being negotiated and concluded with Iranian entities. This is a country that has been under sanctions for a decade, has engaged in some of the worst and most opaque illicit practices in the financial world. It is a country that is still the world's foremost sponsor of terrorism. We do deserve to have transparency in the types of financial arrangements characterizing the deal. The Boeing and Airbus deal are obviously an example.

And my third point, if you allow me, is not necessarily directed to Iran, but Hezbollah. I mentioned that Hezbollah finances a lot of its operations from trade-based money laundering around the world. A lot of the areas where they draw financing from are weak financial institutions. They are jurisdictions rife with corruption and sometimes collusion. One place that comes to mind, of course, is the Republic of Paraguay. I think that the U.S. Government should look into these jurisdictions as possible 311 designations precisely for the reason that sufficient compliance controls are not in place. Thank you.

Mr. PITTENGER. This past year, FATF accepted an action plan from Iran to address the deficiencies that were found in 311. Do you think this was an advisable countermeasure? Was this an appropriate response? And do we anticipate Iran doing anything meaningful with their action plan? Yes, sir?

Mr. TALEBLU. Thank you very much. Great question. The FATF suspension of countermeasures for 1 year, a period of 1 year of review, I think was more political than based on economic or Iran's desires to produce more transparency in the companies that it owns, be they government of Iran-linked entities or private entities. I think the best argument for that would be the people who mar-

shal the entities that Dr. Maloney mentioned, namely the banks that, in the fall of 2016, decided not to lend.

But other than that, I believe it will be highly unlikely that you will see Iran comply with those countermeasures, and they might have to be put back on. And I think this is something that we should guard against and something that my colleagues have mentioned, which is don't suspend conduct-based sanctions and conduct-based labels and restrictions purely for political purposes.

Mr. PITTENGER. Recently, a Chinese-owned company based in the United States, ZTE, was fined a billion dollars for selling technology to Iran. What other countries are complicit in a like manner that we should be wary of? Yes, sir?

Mr. OTTOLENGHI. I don't want to name countries necessarily, but I do want to point out that, in my written testimony, I submitted what I think is a very comprehensive open-source-based list of entities and companies that are providing material support and services to Mahan Air. Many of these companies are based in allied countries, friendly countries to the United States. I think that is a perfect example of where the United States can put companies and countries to a choice not to help a designated entity under 13224.

Mr. PITTENGER. Thank you.

We are tracking the mining of diamonds in Africa going to Dubai and then back to India to be cut and through some measure of trade-based money laundering. What awareness do you have of this, and what countries would be complicit in this effort?

Mr. OTTOLENGHI. Are you asking me specifically or—

Mr. PITTENGER. I am asking the four of you. If you want to respond, you have 20 seconds, please.

Mr. OTTOLENGHI. I think that, once again, as you know, these networks are global. There is an established connection between West Africa and illicit trade-based money laundering activities by Hezbollah and the tri-border area and, more broadly speaking, Latin America. I think that that is where one should look, especially at the transport, both by ship and air connections, that move the merchandise from point A to point B.

Mr. PITTENGER. Thank you. My time has expired.

Chairman PEARCE. Thank you. The gentleman's time has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you very much, Mr. Chairman, all the chairmen and all the ranking members. I think this is certainly a very deserving topic for the hearing.

As part of the JCPOA, we agreed to lift sanctions on aviation equipment and aircraft. Specifically, it commits the U.S. to allow for the sale of commercial passenger aircraft and related parts and services to Iran, provided that licensed items and services are used exclusively for commercial passenger aviation.

One of my contacts at the IAEA, Olli Heinonen, told me that one of the most dangerous things he did as an inspector in Iran was to fly internally in Iran. He said because of the sanctions, the quality of the aircraft was very, very poor. And the inspectors, to a person, thought they were putting their lives at risk every time they

flew internally. They are okay flying from Frankfurt into Tehran, but if they had to fly inside Iran, very big problems.

Now, as Dr. Ottolenghi has pointed out, today, at about 4:00, Boeing has announced a \$3 billion deal with Iran to provide, as you said, 30 737 MAX airplanes.

Dr. Maloney—and I have heard—we will go back to you in a second. This is a big deal for Boeing in its commercial aircraft. Do you see any problems in this? I look at the assets that Iran has in terms of C-130s and other aircraft. They are still flying some of our F-14s that they bought under the Shah. If it is military aircraft we are worried about, they have that, and they have the ability to buy Russian aircraft as well. Is this a good thing for the U.S. or a bad thing?

Ms. MALONEY. I think clearly it is both. I have flown on Iranian aircraft inside Iran, and I can share the assessments that you shared, that it is quite hair-raising. And the sale of passenger aircraft and airline parts was something that the Iranian people, that Iranian leaders have talked about and attached great importance to. I have never quite understood, since it doesn't necessarily help their economy significantly, but certainly for ordinary Iranians, it was quite meaningful, given the history of commercial air disasters within Iran, but as Dr. Ottolenghi has cited, there is clearly some diversion of passenger aircraft for non-civilian purposes. The deal does not provide an adequate remedy for that. I think we need to continue to adhere to our obligations under the nuclear deal. Violating the deal would only leave us isolated from our diplomatic partners and make us less effective in trying to curtail Iran's worst behavior.

The most effective way that we can respond to the sorts of nefarious activities that Iran is undertaking and using its commercial aircraft would be to work with our P5+1 partners to amend the deal to find specific provisions to add to the deal that in fact prevent Iran from undertaking these actions or enable us to curtail our sale of passenger aircraft in response to the specific sorts of instances that Dr. Ottolenghi has described.

Mr. LYNCH. Okay. The other aspect of this is I have always felt that having inspectors on the ground in Iran and having a tighter assessment of what their capacity is at a given moment was much better than what we were doing before, which was sort of trying to come up with a timeline, and several of those turned out to be completely false and inaccurate. Even our Israeli friends, the timelines they gave us turned out to be faulty, which is unusual. They usually have excellent intelligence. But I can't see how we are worse off by having inspectors on the ground there and being able to make that determination in a more precise manner. Do you agree, Dr. Maloney?

Ms. MALONEY. I do agree. At the end of the expiration of the provisions of the nuclear deal, we will have vastly greater information about Iran's capabilities and intentions than we would have had without it. We are significantly advantaged by the continuous presence of intrusive verification and monitoring.

Mr. LYNCH. Okay. Thank you. I see my time has expired. I yield back.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Dr. Ottolenghi, on page 9 of your testimony, you cited a story from The Jerusalem Post about Iran smuggling weapons to Hezbollah on commercial flights. You also listed 67 service providers to Mahan Air in Europe, East Asia, Central Asia, and the Middle East. Do you have any concern about the opportunity for Iran to smuggle weapons and technology beyond the Middle East?

Mr. OTTOLENGHI. I do not have any evidence that they would be using Mahan Air for smuggling weapons, say, to Europe or to Asia, but certainly they have a history of suborning their civil aviation sector to nefarious activities, wherever those activities might be. Actually, we know it for a fact, because that was part of the reason why so many of their airlines were designated before the JCPOA, that Iran Air Cargo and other operators were being used to ship illicitly procured technology from Western destinations back into Iran. So I wouldn't rule it out, sir.

Mr. ROTHFUS. Again, I would be concerned, given Hezbollah's international presence, including Latin America. Would that be of any concern for you?

Mr. OTTOLENGHI. My main concern when it comes to Hezbollah's overseas activities is their deep, enduring involvement in all sorts of illicit criminal activities, first and foremost drug trafficking. There is an enormous amount of open-source evidence, including recent arrests in the tri-border region involving Hezbollah operatives trying to disguise drugs before shipping them overseas to Europe—mainly European and Middle Eastern markets. That is certainly the most pressing concern, but where you have mechanisms to disguise the shipment of drugs, you can also disguise weapons for sure.

Mr. ROTHFUS. I want to talk a little bit about the announcement today with Boeing. Your testimony indicates that Iran has been talking about just replacing its aging fleets, and one might think they are arguing this is a way to increase their commercial capacity. Do you expect Iran to expand the number of nations it has service routes to through all these purchases?

Mr. OTTOLENGHI. I do expect Iran to expand its commercial routes.

Mr. ROTHFUS. Where would you expect them to be expanding to?

Mr. OTTOLENGHI. Again, to go back to the point about Mahan Air, Mahan Air has already expanded its routes into European destinations, adding several destinations since the JCPOA was reached, despite the fact that Mahan Air is under sanctions.

The problem I see is that a lot of these aircrafts that are being used in innocent, benign commercial routes to ferry civilian passengers are immediately repurposed once they come back to Iran to carry fighters and weapons to Syria or to Yemen or to potentially other destinations. They are used to carry back the wounded and the fallen in combat, and then, within hours, as the photographs showed, they are repurposed back for civilian use. That is something that just shouldn't happen. The Russians are conducting their own airlift into Syria. They are strictly using military aircraft that belongs to the Russian Air Force. They do not allow Aeroflot

or other civilian carriers to participate. That is the very least we should expect.

Mr. ROTHFUS. Do we know how Iran is going to be financing the purchases of these aircraft?

Mr. OTTOLENGHI. That is part of the problem. A lot of these—by definition, the procurement by sanctioned entities was always opaque and hard to detect, but also when it comes to the deals that follow the JCPOA that have been based on licensing and are seemingly in compliance with the JCPOA, there is very limited public information available about the structure of the financing, the financial institutions involved, the leasing companies potentially involved, and I think that it behooves both Boeing and Airbus and potentially other aircraft manufacturers to actually come perhaps before Congress and make this information public and available. Thank you.

Mr. ROTHFUS. Mr. Taleblu, you mentioned Iran's sophistication with money laundering through oil exports and precious metals on page 9 of your testimony. Given the Islamic Guard's past support for the Taliban in Afghanistan against the United States, is there any evidence of Afghanistan being used by Iran as a route for illicit trade and money laundering?

Mr. TALEBLU. Thank you very much for your question. I definitely assume so. And I definitely assume that there would be, given the drawdown in U.S. forces. It is known that in Afghanistan's westernmost city, Herat, where there is a population that speaks Dari, that one of the preferred currencies is the Iranian rial. I could totally see Iran offloading rials into Afghanistan and Iran looking to tap into those other networks, particularly precious metals in Afghanistan, but it would likely come at a time when it feels like it has the least to lose from an engagement with the U.S. there.

Chairman PEARCE. The gentleman's time has expired. The Chair now recognizes the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. Thank you. I would like to bring the committee's attention to the No U.S. Financing for Iran Act. It passed this committee overwhelmingly, and it passed the House by a very significant margin, but it died in the Senate. It would provide that we would not allow U.S. banks to finance sales of airplanes to Iran. And I would ask the witnesses about it, but I think we have even more expertise on this side of the room in the sense of, do we really want Bank of America or Wells Fargo or Goldman Sachs to be lobbying Congress in favor of Iran, because otherwise, Iran may be unwilling or unable to pay the \$10 billion, the \$20 billion that they owe to U.S. banks.

There is a tendency for us to believe in our normal affairs that if the lender has control over you—and I have had lenders that have had control over me—but in international affairs, it is almost the other way. The lender has to beg the borrower, please pay. And I have enough lobbyists on the Iranian side.

I will ask each of our witnesses, is there any reason we wouldn't designate the Iran Revolutionary Guard Corps as a terrorist organization? And does it make sense to say the Quds Force is a terrorist organization, but its parent company, the Revolutionary

Guard Corps, is not? Does that make any more sense than saying Osama bin Laden's right hand is a terrorist hand, but his left hand was not? Should we designate? Does it make any sense to designate one without the other? We will go to the first witness.

Mr. TALEBLU. Thank you very much for your excellent question. The United States Government actually had a similar debate in 2007, and they were worried about designating the IRGC versus the Quds Force, so they took a risk-averse approach and only designated the Quds Force. I think that was a mistake then, given the role of the IRGC, and I think it remains a mistake now. IRGC non-Quds Force assets, such as its ground forces, are active in Syria. I think Executive Order 13224 designation for the IRGC is crucial more now than ever before.

Mr. SHERMAN. Thank you for mentioning Syria because the face of this regime—or the face it would like the world to see is that of smiling, debonair Foreign Minister Zarif. The real face of this regime is Aylan Kurdi, that 3-year-old boy on the beach of the Mediterranean, who died along with nearly 500,000 other people as a result of Assad, but Assad would not be there today if it was not for Iran.

Let's go on to Mr. McInnis.

Mr. MCINNIS. Yes. As I had stated previously, for moral reasons, I support a Foreign Terrorist Organization designation for the IRGC, but I recognize, given some of the potential repercussions of that at this point in time, an Executive Order 13224 designation for the IRGC is probably the most appropriate route as we assess potential repercussions.

Mr. SHERMAN. Dr. Maloney?

Ms. MALONEY. Iran is the leading state sponsor of terrorism. It is clear that its military is directly involved and complicit in those actions. It doesn't seem obvious to me what the designation of the Revolutionary Guard does in terms of deterring Iran's involvement in terrorism or deterring the IRGC from continuing the actions that it takes. I think that the Pentagon has greater influence over Iran's regional activities than a designation would have.

Mr. SHERMAN. I am a bit confused by the answer, but I will go on to the last witness.

Mr. OTTOLENGHI. If I may address the question, and thank you for your point. I completely agree with the notion that sanctioning the Quds Force without sanctioning the IRGC is basically making a distinction without a difference. They are one and the same. They are part of the same structure. And I would make the further argument that sanctioning the IRGC under Executive Order 13224, which goes after the terror finance and providers of material support to terrorism, would enable and open up the possibility of sanctioning hundreds of IRGC companies inside Iran. This would be beneficial to the business community as it looks into trying to identify legitimate interlocutors inside the Iranian economy while staying away from illegitimate interlocutors, the ability to designate—

Mr. SHERMAN. Let me try to sneak in one more question.

Dr. Ottolenghi, your testimony includes an annex supplying names of service providers that do business with Mahan Air. The U.S. has urged countries in Europe and Asia to disallow the airline to serve their airports and has applied some secondary sanctions

to firms involved in aircraft transactions. Yet the airlines still operate in countries that are friendly to the United States, including Germany, France, and Japan. Is the Treasury doing enough, and should we be sanctioning those companies that service Air Mahan planes when they do land in Germany, France, or Japan?

Mr. OTTOLENGHI. With your permission, very briefly, first of all, I think it is a very important question to ask Treasury what they have done so far to persuade these companies from stopping this type of service.

Second of all, I think that the answer as to the effectiveness of these sanctions is very clear. When the United States imposed heavy fines on financial institutions that were allowing illicit transactions, the financial world got the message and stopped Iran from conducting illicit financing—or at least introduced very strict compliance standards. I think that a similar type of action with fines and penalties imposed on some of these companies would send a message across-the-board. Thank you.

Mr. SHERMAN. I yield back.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Thank you, Mr. Chairman.

And thank you all for being here today. I am going to just jump into these questions as quickly as I can.

Mr. McInnis, this is for you. Under the Obama Administration's watch, Russia sold and transferred to Iran the S-300 advanced anti-aircraft system. Why do you think that the Obama Administration refused to sanction those Russian entities under the U.S. law?

Mr. MCINNIS. The S-300, those particular entities, in essence—and I am trying to remember the history here. I may need some help with this, but—

Mrs. LOVE. One of the most advanced anti-aircraft systems in the world.

Mr. MCINNIS. No, no. I am familiar with the S-300. I am trying to remember the specific—the companies involved in this from the Russian perspective, because this is part of where I think our sanctions policies need to be going in the future, in particular when it comes to the Russian companies as they look toward potentially trying to work around the current existing U.N. Convention on Weapons Sanctions, that I worry that we are going to need to take very aggressive actions in the future to prevent such major advanced technology transfers in the future. But I do think that was a particular leverage that we were able to use with the Russians during that timeframe to prevent the transfer of something that was going to—

Mrs. LOVE. Did we miss the opportunity to use efforts to actually sanction?

Mr. MCINNIS. The thing is that was something that the Russians could do at that point in time, and we—

Mrs. LOVE. So they weren't—you don't believe that they were in violation of the Iran Sanctions Act or the Iran-Iraq Arms Non-proliferation Act?

Mr. MCINNIS. At that point in time, I think that they were—their authority—and correct me if I am wrong here on the panel—the

Russians were allowed to sell those particular conventional weapons at that point in time.

Mrs. LOVE. Did you have a—you nodded your head at one point—

Mr. MCINNIS. I mean, am I off on that?

Mrs. LOVE. —Mr. Taleblu. Go ahead.

Mr. TALEBLU. Yes. He is correct. Unfortunately, the Russian counterargument to those proposals was they cited the U.N. Conventional Registrar of Arms, which, in category 7 omits, “ground-to-air missiles,” of which the S-300 SAM is one.

Mrs. LOVE. Okay. And if we are going to—I just want to ask one more question, Mr. McInnis. In your testimony, you said that one way we can suppress the Iranian military modernization and growth is by deterring Russian and Chinese equipment sales to Iran. What would those sanctions or efforts look like, in your opinion?

Mr. MCINNIS. And this is what I was referring to as we move forward, is that I am worried that we are going to need, as the JCPOA continue—under the implementation, that we are going to need to look at sanctioning and targeted sanctions against Rosneft and other subsidiaries that the IRGC—or that works with the IRGC or firms connected to the IRGC and the Iranian defense industry. That is where we need to focus and begin to look at secondary sanctions that affect the Russian defense industry to prevent Iran from gaining significant advanced equipment like that. That is what I am particularly worried about. And I think that those are things that we could construct here in the U.S.

Mrs. LOVE. Mr. Taleblu, since the JCPOA was agreed to, how have Iran’s efforts to export terrorism changed, in your opinion?

Mr. TALEBLU. Thank you very much for the question. I think, unfortunately, they have significantly been enhanced. The Iranian role, at least in Iraq and Syria and its “near abroad” has deepened. Iran now uses the argument in Iraq that, “You need us more than you need the U.S.,” which clearly isn’t true. The U.S. is the one leading most of the strikes against ISIS. Shia militias often unfortunately engage in sectarian slaughter on the back ends of the cities that U.S. Forces combined with the Iraqi Army actually liberate. So there actually needs to be a way to keep Iran out of this equation, but Iran is able to marshal these arguments and say, “No, you need us; we are in the region longer,” and they will cite—you know, there is a quote from Qasem Soleimani that says, “We are not like the Americans; we don’t abandon our friends.”

So I think now is the time to actually come to the aid of states like Iraq, the provincial government of Iraq in particular, to deny Iran this argument.

Mrs. LOVE. Do you believe that there is a difference between conventional ballistic missiles and those which are designed to be nuclear-capable, a phrase which exists in the UNSCR?

Mr. TALEBLU. Thank you for this question too. This is unfortunately complex. The Iranians have used the word “designed” in the resolution to kind of pooh-pooh any attempts by the U.S. and the international community to go after its ballistic missile testing. I think when we look at the word “nuclear-capable,” that is a word that comes from a specific metric in this international regime—

Mrs. LOVE. Right.

Mr. TALEBLU. —the MTCRs, 300 kilometers over 500 kilograms. So it is range over payload. Most of the missiles that Iran has tested since the deal actually meet and far exceed that, but I think it is kind of an artificial metric to add, because there are many ballistic missiles that can carry a nuclear weapon, such as the Lance, which the U.S. sold to Israel; such as the Pakistani HATF IX; such as the French Pluton, which was deployed during the Cold War. These are important munitions that actually can carry a nuclear warhead that fall short of that metric, and I think limiting ourselves to that metric only concedes the argument to Iran.

Mrs. LOVE. Thank you.

Mr. Chairman, my time has expired. Thank you, Mr. Chairman. Chairman PEARCE. The gentlelady's time has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Budd, for 5 minutes.

Mr. BUDD. Thank you, Mr. Chairman.

Mr. Taleblu, one of Iran's advantages, as you allude to in your testimony, is to provide weapons that acquire costly countermeasures from traditional forces in low-intensity conflicts. The U.S., while its allies are often disadvantaged by these tactics, has the ability to exert diplomatic leverage through additional sanctions in a way that Iran, which is a weak economy, does not. The question is, is it fair to think about a strengthened, more effective sanctions regime that includes additional measures to deny Iran access to the payment network as utilizing a primary U.S. advantage? Is that a primary U.S. advantage?

Mr. TALEBLU. Thank you very much. That absolutely is a primary U.S. advantage, and it is absolutely fair to seek those measures, but it is also absolutely fair to seek diplomacy with our partners' help to interdict the sales and transfers of these weapons too.

Mr. BUDD. So that is a soft power way that we could leverage Iran—I guess you could elaborate on that a little more how we could go about that?

Mr. TALEBLU. Sure. That it is soft power, I think, hits the nail on the head. We could target the entities that actually engage in the production or transfer of these weapons. There is another Executive Order we have been talking about, Executive Order 13224, all of today. There is another one, 13611, I believe, which came into force May 2012, and that blocks the property and assets of those threatening the peace and stability of Yemen. Iranian arms transfers to Yemen have been intercepted at least 4 times. There are Iranian antitank missiles, copies of Iranian antitank missiles being used in Yemen. So we could investigate, does the IRGC or any Iranian private entity which facilitates the transfer of weapons to the Yemeni theater deserve to be targeted pursuant to sanctions as defined in this new executive order?

Mr. BUDD. Sure. So are the benefits the Iranians get as a result of this Iran deal strong enough to keep them in the agreement if the U.S. dials up pressure in other areas?

Mr. TALEBLU. While it is important to look at both the costs and the incentives of Iran for it to keep the nuclear deal, I think it is also important to be aware of the domestic debates in Iran. Here I have an article from March 10, 2017, in a major Iranian news-

paper, Kayhan, and the headline is a quote from Iran's Deputy Foreign Minister. And I am just translating it as I am reading it now, and it says, "The JCPOA wasn't supposed to make Iran's economy blossom." So he is basically taking the exact opposite of the argument that he is going to international banks and to the Western world. Basically, he is—the argument he is making to the West is, no, you have an investment in the Iranian economy, but as Adam Szubin said, "The JCPOA is an agreement, not a cashier's check." Just because we have agreed to waive sanctions doesn't mean we need to go actively advocate on behalf of the Iranian economy. That is something that they need to do by fixing their AML laws, by making their companies more transparent, and by getting the IRGC out of the legitimate private sector.

Mr. BUDD. So if they still have maneuvering room, bottom line, because the Iran agreement is so good for the Iranians, we could get tough on them and they would still—they wouldn't leave?

Mr. TALEBLU. To the best of my assessment, I believe that Iran has constantly cited in their domestic press that they feel that we need the deal, the United States needed the deal more than they do. I believe Mohammad-Javad Larijani, who is the brother of Iran's Parliamentary Speaker, made this point in the fall of 2016.

Mr. BUDD. The Iran deal hasn't worked. Iran remains the world's foremost state sponsorship of terrorism. And they capture and humiliate our soldiers. They are first-rate money launderers, as we have heard. They test ballistic missiles regularly. The IRG is now solidifying its place as one of the largest quasi-criminal syndicates, and the list just keeps going on. But the theory that Iran was a geopolitical equivalent of a lost sheep waiting for the international community to stop being mean to it, the theory that the Iran deal is based on, has been proven totally false. So are the options for additional sanctions you have laid out in your testimony, is that an option for the United States to recover some ground in light of the total failure of the Iran deal?

Mr. TALEBLU. It is definitely one of the many ways that the U.S. should deal with this. In fact, what is required is really a whole-of-government approach. I think there has been a significant informational leg in the campaign against Iran that has been missing, such as we have all been looking at Iran for decades now with this combined experience of this distinguished panel, but one thing that hasn't been said today is that one of the saddest things to see about Iran is the constant prioritization of the regime's interest over their national interest, over their own narrow ideological interest over the interests of their own people. You see it with the Boeing deal. You see it with military use of civilian airliners. This is something that should be highlighted in that informational campaign to supplement U.S. economic sanctions.

Mr. BUDD. Thank you, Mr. Taleblu.

Mr. McInnis, in the remaining time we have, how would you—or how do we deter Russian and Chinese arms sales to Iran through a sanctions regime?

Mr. MCINNIS. Yes. As I had alluded to before, I think, targeting increased designations of the IRGC, lowering the thresholds, as we discussed before, perhaps down to 25 percent and increasingly detoxify IRGC-related defense industries so that we have an in-

creased secondary sanctions regime so that defense companies that want to work with the IRGC or sell to the IRGC particular types of weapons that we designate, we can continue to make it—financing and make those types of sales more and more difficult for the Russians, Chinese, and others to do.

Mr. BUDD. Thank you very much.

I yield back.

Chairman BARR. The gentleman's time has expired. And the gentleman from North Carolina will be advised that the shot clock on the floor was almost exactly in line with his, and so the time on the floor has run out like it ran out against Gonzaga last night.

The Chair now recognizes the gentleman from Tennessee, Mr. Kustoff, for 5 minutes. And be advised we are expecting votes at any moment on the Floor. We will try to get in the questions, but if not, we will adjourn the hearing. So, the gentleman from Tennessee.

Mr. KUSTOFF. Thank you, Mr. Chairman.

Mr. McInnis, we know that last year, there was a payment from the Obama Administration of around \$400 million on the same day or about the same time that Iran released five American prisoners. We also know that the Obama Administration stated a number of times that it would neither negotiate nor pay a ransom. This payment appears to be a contradiction of the remarks made by the Obama Administration, and people can judge that as they like.

Specifically, though, is there any evidence that you see that Iran used this and any other cash payments following implementation of the JCPOA to further or worsen the conflicts in the region, such as the civil war in Syria or the conflicts in Yemen?

Mr. McINNIS. I believe that the moneys—especially in 2016—that Iran accrued from the JCPOA, insofar as following their budget in particular, you saw a number of these types of allocations that particular—what ended up being \$1.7 billion in total from that settlement. Many of those moneys were directed to be used by the IRGC for its overall military activities.

How to discern exactly if that money went to specific activities in Syria or Iraq or to support terrorism elsewhere is hard to discern, but I think that it is pretty clear from analysis of their budget that the moneys that that came out of the JCPOA, a good portion of them was very clearly sent to the military and to the IRGC for their activities around the region.

Mr. KUSTOFF. Thank you, Mr. McInnis.

Mr. Taleblu, yesterday, there was a story that posted on The Wall Street Journal website, and it is entitled, "Syria's Civil War Produces a Clear Winner: Hezbollah." And I don't want to read from the entire article, but if I could: "Hezbollah today is stronger, more independent, and in command of a new Syrian militia that its officials say is ready to be deployed to other conflicts in the region. Hezbollah now fights alongside Russian troops, its first alliance with a global power. It was Hezbollah that devised the battle plan for Aleppo used by Syrian and Russian forces last year, according to Arab and U.S. officials who monitor the group."

One line that struck me: "Thanks to money and arms from Tehran, Hezbollah now stands almost on a par with Iran as a pro-

tector of President Bashar al-Assad's government and as a sponsor of Shiite forces in Syria."

So, if we could, how specifically does Iran sponsor terrorism and other illicit activity with groups such as Hamas and Hezbollah, and is there any additional evidence that suggests Iran has taken additional steps to further destabilize the region?

Mr. TALEBLU. Thank you very much for that excellent question. I think that observation is key, because having been tracking the issue in Iran's war in Syria for a couple of years now, I have seen many testimonies where analysts have alleged that actually having Hezbollah fight deeper in the Syrian civil war could have a long-term positive effect because it would discredit them as a Lebanese political institution or a Lebanese political force.

Unfortunately, the exact opposite thing has happened, as you had mentioned. In 2007, for instance, there were reports that Hezbollah was helping Iran train Shia militias on Iranian territory and then deploying them to Iraq. In 2013 through 2016, as you mentioned, Hezbollah was active helping Assad take back territory. In 2015 through 2017, they were reporting that Hezbollah allegedly is helping Iran in Yemen. So, in fact, this force is growing its strength. It is not weak—it is not being diminished at all.

And while the issue of exact number of payments to Hezbollah remains to be seen, Iran has furnished that group with everything from C-802 anti-ship missiles to a whole variety of different rockets, 107-millimeter rockets, 106-millimeter anti-tank shells. There is a whole slew of such munitions that continue to be sent to groups like Hezbollah.

Mr. KUSTOFF. In this Wall Street Journal article from yesterday entitled, "Syria's Civil War Produces a Clear Winner: Hezbollah," the statement that I just read to you, "Thanks to money and arms from Tehran, Hezbollah now stands almost on a par with Iran as a protector of President Bashar al-Assad's government and as a sponsor of Shiite fighting forces in Syria," would you agree with that statement? Are they equal or almost equal?

Mr. TALEBLU. I continue to see Hezbollah as more of an Iranian proxy than anything else. While Hezbollah may have—

Chairman PEARCE. If the Chair could interrupt, we will ask for that in writing. Votes have been called. We are down to 10 minutes. We are going to try to squeeze at least one more questioner in.

Mr. Davidson is recognized for 3 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman.

And thank you all for being here, I appreciate your testimony.

I had a question about Hezbollah's activities, and Hezbollah's activities with the drug trade in particular. There has been a fair bit of their involvement, and so far that ties to Lebanon, but not directly to Iran. And, of course, there is correlation. Has there been any successful effort to tie the cash flows from the drug trade, particularly with the U.S. drug trade, not just in Central and Latin America more broadly, but at U.S. border trade? Dr. Ottolenghi?

Mr. OTTOLENGHI. Yes. Thank you. It is a very important question, and I am very grateful you brought it up. The network that deals with drugs is truly global. The cocaine, of course, comes entirely from Latin America. It travels to its multiple designations,

Western markets mainly, but also increasingly to the Middle East. And while I can't go into too much detail, there is plenty of open-source evidence indicating multiple connections between the Hezbollah people in Latin America involved in the drug trade on the one hand, operatives and cartels trading in criminal organizations in Europe and other places in Latin America and potentially all the way to the United States moving the drugs, connections with the Iranian network in Latin America. And most troubling, the financial links lead all the way to the United States. In other words, while the drugs may not be moved directly by Hezbollah into the United States, into the U.S. market, Hezbollah is using U.S. jurisdictions in order to launder the revenues from its illicit trade. So there is a threat to the financial integrity of the U.S. financial system from Hezbollah's illicit activities in Latin America that are linked to the drug trade.

Mr. DAVIDSON. Thank you.

And, briefly, could you mention any tools that would be helpful that aren't already in place?

Mr. OTTOLENGHI. Thank you. I think that one important tool is to empower the law enforcement agencies that are chasing these cases, especially down in Latin America, where the willingness by local government to cooperate is somewhat diminished by the level of collusion and complicity that some officials in these governments have with illicit activities to which Hezbollah is accessory.

Of course, once again, I bring to your attention the ongoing activities of Hezbollah in the tri-border area. In the tri-border area, there is an enormous degree of complicity, collusion, or just benign neglect from local officials, from law enforcement authorities that overlook these activities.

Chairman PEARCE. The gentleman's time has expired.

Mr. OTTOLENGHI. Pressure from the United States and its Government would be extremely helpful.

Mr. DAVIDSON. Thank you. My time has expired.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Hollingsworth, for 3 minutes.

Mr. HOLLINGSWORTH. Thank you, Mr. Chairman. And thanks to all of the witnesses for being here today. We have heard a lot of testimony and certainly a lot of great information about what may need to be done next, but could you walk a step further and tell me what success looks like? If you had all the tools at your disposal, you were able to put these sanctions on, you were able to do these things, what would success look like, and how would we measure whether we have been successful? And then I will go one step further. And that really goes to everybody if each of you wants to answer.

Mr. TALEBLU. I think that is an absolutely important question. One measure of success is no Iranian ballistic missile testing for the duration of the deal should the deal decide to hold. Another measure of success should be marshaling sufficient economic pressure to erode the ability for Iran to domestically produce some of these systems. Another measure could be forcing Iran or coercing Iran to stop sending men, money, and munitions to Syria. So while

coercion is the primary goal, deterrence and punishment could be secondary and tertiary goals.

Mr. MCINNIS. Yes. I would add to that that certainly you can measure that by a shrinking ability for groups like Hezbollah and others to be able to project any type of terrorist activity worldwide, but also I think that Iran's ability to be able to build and increase the reach of its proxies and their ability to project any type of weapons against us, I think, the increasing arming and ability to move their proxies around the region. For me, I want to be able to shrink that capacity to move this new integrated militia army that Iran has. If it can be broken and shrunk and slowly over time be able to be rolled back, that, for me, is what I am looking for most importantly.

Ms. MALONEY. The definition of success would be a more responsible government in Iran, one that is not interfering and sowing violence throughout the region, but a broader definition of success would include an end to the conflicts in Syria and Yemen, and U.S. support for broader political, social, and economic reform across the region.

Mr. OTTOLENGHI. I fully subscribe to what Dr. Maloney has just said.

Mr. HOLLINGSWORTH. You have the problem I do. As a freshman, I go last and so I get to say, "I agree," frequently. But is it too much—are we asking too much of these sanctions? Many of the answers that you put forth are very big, very broad, admirable goals nonetheless, but maybe too far a reach for sanctions or any political pressure that the United States can provide? Any thoughts on that?

Mr. TALEBLU. You know, I have the pleasure of working for Mark Dubowitz at the Foundation for Defense of Democracies, and he has coined this phrase, "Sanctions aren't a silver bullet, but they are silver shrapnel." And I definitely think there is a lot of shrapnel that the Iranian body armor can afford to take right now. Again, it should be coupled with a whole-of-government approach.

Chairman PEARCE. The gentleman's time has expired.

I would like to thank our witnesses for your testimony today and for answering our questions.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is adjourned.

[Whereupon, at 4:32 p.m., the hearing was adjourned.]

A P P E N D I X

April 4, 2017

“Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran”

Committee on Financial Services, U.S. House of Representatives

Joint Hearing of the Monetary Policy and Trade Subcommittee

and the Terrorism and Illicit Finance Subcommittee

April 4, 2017

Suzanne Maloney

Deputy Director, Foreign Policy and Senior Fellow, Center for Middle East Policy
The Brookings Institution

Chairman Barr, Ranking Member Moore, and Chairman Pearce and Ranking Member Perlmutter, and Members of the both Subcommittees: Thank you for the opportunity to appear before you today. I am very pleased to offer my views, although I must emphasize that I represent only myself before you today. The Brookings Institution does not take any institutional positions on policy issues.

Two years have now passed since representatives of the United States, Iran, and five other world announced an agreement on the framework of understandings that would eventually be formalized in the Joint Comprehensive Plan of Action (JCPOA.) It is my strong belief that the Iran nuclear deal has enhanced the security of the United States and our allies in the region by deterring Tehran’s pathways to nuclear weapons capability for more than a decade and, for some aspects of the program, even longer. It is a credit to the enormous diplomatic energy that was invested in the negotiation of the deal by U.S. officials and their counterparts among the “P5+1” countries that Tehran has abided by its JCPOA obligations.

In any consideration of the challenges facing the United States and its allies in the Middle East, there is a temptation to downplay the dividends of the nuclear agreement in alleviating the urgency of Iran’s nuclear ambitions. That would be short-sighted: thanks to the JCPOA, Iran’s installed centrifuges have been cut by two-thirds, its stockpiles of low-enriched uranium are capped, its plutonium reactor rendered inoperable, its nuclear research curtailed, and every aspect of its nuclear program is now subject to intrusive international monitoring and verification. Despite some fears, the prospect of a regional cascade of proliferation appears to have receded since the agreement was inked.¹

As former President Barack Obama repeatedly insisted, the accord addressed only one dimension of the challenge posed by Tehran, and in those narrow terms, it can be judged a relative success. The value of that relative success should not be underestimated; amidst the turbulence and tragedy that continues to beset the Middle East today, the absence of an agreement constraining Iran’s nuclear capabilities would magnify the risks in truly terrible ways.

However, it is equally important to recognize the finite ramifications of the nuclear deal. The sanguine expectations of some in Washington and elsewhere—expectations that were deliberately and cynically nurtured by Iranian officials over the course of the negotiations²—

¹ Robert Einhorn and Richard Nephew, “The Iran nuclear deal: Prelude to proliferation in the Middle East?” May 31, 2016, <https://www.brookings.edu/research/the-iran-nuclear-deal-prelude-to-proliferation-in-the-middle-east/>

² In his September 2014 speech to the United Nations General Assembly, Iranian President Hassan Rouhani stated, “If our interlocutors are also equally motivated and flexible, and we can overcome the problem and reach a

that the agreement might herald the beginning of a wide-ranging process of moderation in Iran's approach to the world have proven unfounded, at least as a short-term proposition. Instead, through the long months of painstaking diplomacy that generated the JCPOA and in the wake of its conclusion and implementation, Tehran continued to do what it has done consistently since the 1979 revolution: it has sought to extend its influence throughout the broader Middle East. And it is succeeding in seizing the advantage in the roiling sectarian conflict that has infected the region, consolidating a predominant position across the broader Middle East and tentatively reorienting the regional order in its favor. As a result, the challenges posed by Tehran to U.S. interests and allies remain as relevant, and as alarming, as they have ever been.

Iranian Regional Ambitions and Activities

Under almost any conceivable leadership, Iran will seek to play an outsized role in the broader Middle East. With its long legacy of territorial integrity and relatively cohesive political heritage, Iranian influence has dominated vast expanses of what is now the Middle East and Central Asia over the course of millennia. During the Pahlavi monarchy, Iran emerged as the dominant regional power broker, courting both superpowers and asserting itself extravagantly at home and abroad. This vision of Iran's natural predominance as the heir to the ancient Persian empire looms large for its population as well as for its leadership.

Revolutionary Iran retained the messianic ambitions of its imperial predecessor, obviously with a distinctly religious flair. The initial outlines of the Islamic Republic's regional policy can be found in its 1979 Constitution, which includes among the pillars of the revolutionary state's approach to the world "the defense of the rights of all Muslims." And while it contains an injunction against interference in other countries' internal affairs, the Constitution pledges that the Islamic Republic "supports the just struggles of the freedom fighters against the oppressors in every corner of the globe."³ The government adopted a formal policy of non-alignment—"neither east nor west"—as dictated by the Constitution, and the Islamic Republic quickly undertook a series of antagonistic policies toward the United States as well as Israel.

In the immediate aftermath of the revolution, Iranian leaders began assembling the infrastructure to 'export the revolution;' this has included support of terrorist organizations, subversion its neighbors through force as well as through propaganda, and threats and assassinations of individuals abroad who are deemed enemies of the Islamic Republic. What began with a sort of "demonstration effect"⁴ of opposition among Shi'a populations in Kuwait, Bahrain, and Saudi Arabia evolved into a vast official administration for seeking to topple the status quo in the Persian Gulf and the larger Islamic world by word or by deed, conducting proxy wars in Lebanon and Iraq, and sponsoring violence against a loosely-defined set of adversaries throughout the world.

The establishment and cultivation of levers designed to subvert its neighbors highlights several of the underlying factors that shape Tehran's approach to the region, including an

longstanding agreement within the time remaining, then an entirely different environment will emerge for cooperation at regional and international levels, allowing for greater focus on some very important regional issues such as combating violence and extremism in the region." See http://www.un.org/en/ga/69/meetings/gadebate/pdf/IR_en.pdf

³ Articles 152 and 154 of the Constitution of the Islamic Republic of Iran, Iran Human Rights Documentation Center, <http://www.iranhrdc.org/english/human-rights-documents/iranian-codes/3017-the-constitution-of-the-islamic-republic-of-iran.html>

⁴ Graham Fuller, *The "Center of the Universe": The Geopolitics of Iran* (Boulder: Westview Press, 1991), p. 94.

aspirational pan-Islamism from a regime whose original conceptualization cast itself as the inspiration and model for the broader Muslim world. In practice, this appeal to the *umma* has translated to sectarian chauvinism on behalf of fellow Shi'a in the Gulf states, Iraq, and Lebanon, where existing networks and domestic grievances have tended to generate greater traction for Iranian overtures and initiatives.

Perhaps the most important factor governing Iran's ambitions and activities within the broader Middle East is the acute, abiding sense of insecurity of its leadership, a function of historical memory and searing experience. Memories of the 1953 coup, in which a democratically-elected prime minister was unseated with American assistance, remain powerful even in Islamic Iran. Those events helped to crystallize a "conspiratorial interpretation of politics" and an obsessive fear of internationally-orchestrated instability.⁵ The events of the revolution's first decade—years of violent challenge to the theocracy's existence from within and without—only fed this persistent sense of vulnerability and mistrust.

This formative period instilled enduring doubts about the reliability and utility of international norms and institutions. In the official Iranian narrative, the 1980 Iraqi invasion represented a link in a larger plot, and Tehran's continued military campaign beyond its primary defensive aims was justified, by Ayatollah Ali Khamenei's account, as "not a war between two countries, two armies; it was a war between an unwritten, global coalition against one nation."⁶ The international community's tepid response to the invasion and Saddam Hussein's subsequent use of chemical weapons cemented a conviction among Iran's leader, particularly within the security bureaucracy, that international norms constitute a sham to shield the essential avarice of America and its allies.

As a result of its early ordeals, Tehran prioritizes regime survival above all else, and self-preservation has become intertwined with a deeply-engrained conviction that the world, led by Washington, is bent on the revolutionary state's eradication. Gripped by their perception of an intractably hostile world and a conviction that the exigencies of regime survival justify its actions, Iranian leaders exploit every opening and utilize any tool at their disposal to advance their interests.

The consequences of this dystopian vision can be seen in the assiduous campaign by Tehran to cultivate allies and proxies, bolster its indigenous deterrent capabilities, develop and expand the revolution's strategic depth, and deploy violence and subversion across the region. For most of the past 38 years, those efforts left the Islamic Republic estranged to greater or lesser degrees from many of its neighbors and constrained and widely isolated.

Over the course of the past 15 years, however, Iranian regional sway has progressively expanded—predictably in concert with the intensification of violence and unrest that has plagued the region. An influential Iranian member of parliament has boasted that Tehran controls four Arab capitals: Baghdad, Damascus, Beirut, and Sana'a. In fact, this is an understatement of Iranian reach and ambitions. Tehran has achieved unprecedented predominance in a wide swath of the Middle East that stretches from the Mediterranean Sea to Central and South Asia. If Tehran were a constructive international actor, if its leadership respected international law and institutions, such shifts in the balance of power might be natural or even benign.

⁵ Ervand Abrahamian, *Khomeinism: Essays on the Islamic Republic*. London: I.B. Tauris & Co. Ltd., 1993, p. 112.

⁶ Supreme Leader Khamenei emphasizes spiritual strength of Iranian army, Voice of the Islamic Republic of Iran Radio 1, April 16, 2003.

However, the very means that Iran employs to gain access and advantage sow the seeds of further chaos. As the world's foremost state sponsor of terrorism, the Islamic Republic funnels financial support, sophisticated weaponry, and training to a widening array of militants and extremists who are determined to upend the regional order. In Yemen, Iran has escalated and prolonged a conflict with horrific humanitarian consequences in order to divert the military resources of its regional rivals and expand its ability to threaten international shipping lanes. Iran is also actively seeking to destabilize Bahrain, home to the U.S. Navy's Fifth Fleet, and harassing U.S. naval vessels and other ships in the strategic Straits of Hormuz.

A generational investment in Hezbollah has enabled Tehran to create a hostile state-within-a state on Israel's border. Much the same is beginning to take shape elsewhere in the Levant: Iran's counter-ISIS campaign in Iraq has enabled its proxies to fill the security vacuum there and assume a powerful, permanent role in the central government. The conflict in Syria has honed the war-fighting skills and strategy of Iran's Revolutionary Guard, its Qods Force, as well as Hezbollah, and generated an expeditionary army of Shia partisans from Afghanistan and Pakistan, insulating its own population from the toll of its foreign interventions.

Sanctions and Their Efficacy

The experience of the past decade underscores the efficacy of sanctions when wielded wisely. Tehran's uncompromising stance on the nuclear program over a dozen years fueled the perception that its leadership would pay any price for the program. With the help of Congress and the world, Washington crafted a set of measures that ultimately shattered that myth. Authorities put in place in the aftermath of the 9/11 attacks to curtail terrorist financing provided a platform for assembling an unprecedented campaign that progressively denied access to the international financial system to individual Iranian banks and, eventually, most of its economy.

The sanctions instituted over the course of the past decade forced Iran to alter its uncompromising approach. Iran's leadership has acknowledged as much; as Ayatollah Ali Khamenei, the country's supreme leader explained in September 2015, "[w]e negotiated so that the sanctions framework will be eliminated and that sanctions in general will be lifted...The reason why we entered into negotiations and made some concessions was to lift sanctions."⁷

Changes in energy markets made it possible for the first time to target Iran's oil production without blowback to the global economy or domestic price at the pump. And Iran's internal regression—its conveniently cartoonish then-president Mahmoud Ahmadinejad and the suppression of 2009 pro-democracy protests—facilitated newfound and profoundly valuable cooperation from Europe and much of the rest of the world. In announcing the nuclear deal to his public, Iran's president, Hassan Rouhani, lamented the impact of the sanctions, saying that "[w]e could not buy anything, we could not import anything. We went back to the stone age system, with currency exchange and brokerage, through which one cannot live."⁸

Can Additional U.S. Sanctions Create Additional Leverage?

It is not clear that new authorities are particularly useful or necessary. The deal left intact a significant array of restrictions for Iran's economy. The U.S. Treasury Department remains the

⁷ "Supreme Leader's Speech in Meeting with Chairman and Members of Assembly of Experts," September 3, 2015, http://english.khamenei.ir/index.php?option=com_content&task=view&id=2111&Itemid=4

⁸ BBC Worldwide Monitoring, July 23, 2015.

long pole in the international sanctions architecture, and even residual American measures have continued to pose a powerful deterrent against business in Iran. Notably, Iran's worst actors, including those associated with the Revolutionary Guard Corps, remain designated under existing measures — tainting, by extension, any foreign company that does business with them. The Trump administration retains wide-ranging authority to augment the list of individuals and entities designated under the existing U.S. measures on the basis of support for terrorism, human rights abuses, and a litany of other grounds.

Beyond these specific restrictions, the primary embargo on U.S. trade and investment in Iran criminalizes even the most tangential involvement in the Iranian economy outside the specific sectors exempted under the deal or preexisting loophole. As a result, American firms and individuals are largely off-limits for transactions or even contact with Iranian businesses.

The primary embargo and the multitude of residual American sanctions benefit from a powerful force multiplier: a decade of increasingly wide-ranging restrictions and consistently rigorous enforcement, including numerous multimillion dollar penalties, has created a culture of compliance by major firms around the world. In fact, the legal and reputational risks have been so thoroughly reinforced that the impact of the openings provided to Iran's economy under both the November 2013 interim agreement and the JCPOA has proven to be less, not more, valuable than originally anticipated.

In addition, the fact that U.S. implementation of our obligations under the JCPOA remain reliant on waivers and other inherently temporary mechanisms for reversing existing measures; that alone entails sufficient uncertainty to give major investors around the world significant qualms about committing to the kind of multi-year, multi-billion dollar projects that Iran's energy sector requires.

And of course the deal incorporates the threat of “snapping back” other sanctions. These provisions are not perfect guarantees that the current level of multilateral restrictions on Iran can be readily reinstated. However, they too reinforce a sense of uncertainty about the medium or long-term context for investing in Iran—a time horizon that will be directly relevant for the scale and duration of major investments, particularly in the energy sector. There is no doubt that the perpetuation of economic restrictions will have a continuing dissuasive impact on Iran.

The successful experience with sanctions over the course of the nuclear crisis has fostered the perception that these measures can serve as a silver bullet for intractable issues. However, there are few guarantees that new measures to facilitate wide-ranging designation of firms that in some way intersect with Iran's ballistic missile program or further stigmatize the Revolutionary Guards and its web of spin-off companies can provide sufficient disincentives to alter Tehran's longstanding patterns of regional power projection or revise the broad calculus of opportunism and insecurity that underlies its regional policies.

First, the long-term track record underscores the unfortunate reality that Iran's support for terrorism has never been driven primarily or even substantially by resource availability. In fact, Iran's most destructive regional policies have been undertaken and sustained even at times of epic constraints. These policies were initiated in the early post-revolutionary period, when Iran's economy was suffering the consequences of revolutionary upheaval and continuing internal unrest, and they continued and actually significantly intensified after the September 1980 Iraqi invasion of Iran and throughout the long, brutal, and costly war that followed.

In fact, many of Iran's worst regional abuses took place during this first decade: the cultivation of Hezbollah and that group's 1983 bombing of the U.S. Marine barracks in Beirut and the direct and often deadly assistance to subversive groups in its southern Gulf neighbors throughout the war with Iraq. Economic constraints may have energized and legitimized Tehran's investment in unconventional warfare against its neighbors as well as American interests and allies by virtue of the limitations on Tehran's ability to resupply its conventional war effort vis-à-vis Iraq and the cultivation of its leadership's innate sense of suspicion.

These same trends have held over the course of the past decade, as externally-imposed economic pressures on Tehran, as a result of both sanctions and the more recent decline in oil prices, reached or even surpassed the heights of the hardships during the war. These pressures provided no remedy to Iran's efforts to extend its influence through nefarious activities and allies, or its substantial investment in fueling and fighting conflicts in Iraq and Syria. Even since 2010, when the world has applied unprecedented financial pressure on the regime including measures that have directly targeted the institutions and assets related to Iran's regional power projection and its support for terrorist proxies beyond its borders, there is little evidence that sanctions impeded Iran's most destabilizing policies.

The relative consistency of Iran's relationships with terrorist organizations and extremists across the region makes it impossible to discern much, if any, remedial relationship between the economy and the adoption of more responsible regional policies. This is in part a function of the relatively low funding threshold for these activities; the expense associated with sustaining Hezbollah's massive rocket arsenal or fueling Bashar Al Assad's barrel bombs is relatively easily absorbed even at times of relative scarcity. More importantly, the persistence of these policies is further confirmation that they tend to reflect opportunism on the part of Iranian leaders rather than budget priorities.

In addition to the question of the durability of Iran's investment in subversion and terror, several other important factors would necessarily limit or even undermine the efficacy of new measures. The sanctions regime constructed over the course of the 12-year nuclear crisis benefitted from an exceptional degree of multilateral support and consensus, itself the product of enormous diplomatic energy. Over the course of 4 years and 4 successive Security Council resolutions, a consensus emerged among the major world powers around the use of economic penalties. Compounded by concerns that stretched beyond the nuclear file itself, and encouraged by a well-coordinated U.S.-led campaign that highlighted non-sanctions risks to business activities with Iran—many of Iran's major trading partners gradually committed to minimize or even sever economic ties with Tehran.

Research on a wider variety of cases suggests that multilateralism is not, in and of itself, a guarantee of success. Still, a multilateral context has been shown to contribute to adherence and to reinforce the signaling role of sanctions, and the most recent Iran sanctions bears out this proposition. In addition, multilateralism in sanctions tends to be self-reinforcing; as the UN, the European Union, and a number of individual states joined forces with Washington in pressuring Tehran, it became more viable to nudge other longstanding fence-sitters, such as the Arab states of the Persian Gulf, to cooperate in implementing UN and/or U.S. measures. And international support didn't simply just broaden the scope of sanctions enforcement; it helped to create an interlocking and often redundant array of pressure that proved far stronger and more persuasive than the sum of its parts.

At this time, Washington does not have, nor is it likely we could quickly instigate, anything close to the level of multilateral consensus surrounding Iran's regional policies that was built, slowly and through the fortuitous confluence of facilitating circumstances, on the nuclear issue. Iran has effectively dispelled some of the other factors, such as the international abhorrence toward Ahmadinejad and the outrage generated over his contested 2009 reelection and the repression of the protests that followed in its wake.

Russia clearly does not share our interests in ending the Syrian conflict through the removal of the vicious Assad government; Beijing will not readily jeopardize its energy security to punish Iran for its financial and material assistance to Hamas or Palestine Islamic Jihad. And even our European allies have traditionally exhibited ambivalence on Iranian support to groups such as Hezbollah. The history of U.S. policy since the Islamic Revolution offers little reason to be sanguine about a go-it-alone approach on Iran. Trying to sustain Iran's economic isolation without the participation, or at least the acquiescence, of the rest of the world's major powers would inevitably pose fewer costs for Tehran and greater expenses for Washington in terms of transatlantic relations and American influence around the world.

Anticipating Iran's Responses to Further Pressure

The long history of sanctioning Iran has produced a number of readily identifiable patterns in Tehran's response. Among these are:

- **Denial:** Tehran typically rejecting the significance of economic pressures and integrating the measures into the ideological narrative of international conspiracies against Iran.
- **Self-Sufficiency:** Iranian leaders have frequently depicted economic pressure as constructive by providing the impetus for investing in domestic capabilities and weaning the country off its reliance on the West as well as on resource revenues.
- **Blowback:** Tehran has also sought to emphasize that the states imposing sanctions face higher costs from any new measures against Iran than Tehran itself does.
- **Bandwagoning and Diplomatic Breakout:** Tehran sought to erode adherence to sanctions by the demonstration effect of its continuing engagement with the world. Coupled with the expectation of sanctions fatigue over time, Iranian leaders attempted to wait out and wear down both enforcement efforts and the international consensus to maintain pressure.
- **Retaliation:** During periods of intense isolation, economic pressures tend to exacerbate the regime's innate animosities and paranoia. Iranian leaders have sought to impose costs on the sanctioning state in response to the intensification of economic pressure.

It is the final two elements of the Iranian playbook in responding to sanctions that are most germane to the discussion of the imposition of new measures at this time. Long before the 2016 American presidential election, Tehran has already begun to seek to accelerate its trade, investment, and diplomatic engagement with American allies in Europe as well as other key actors in the international community as a hedge. The goal is to splinter the transatlantic consensus that proved so effective during the nuclear crisis and isolate Washington as an outlier. We can blunt this strategy, but it will require time and sustained coordination with our European allies and conceivably China and Russia to facilitate the kind of robust common front that endured through the long process of reaching consensus around the JCPOA.

Even more concerning is Iran's capacity for asymmetric retaliation against American interests and assets. Iranian leaders and military commanders are prone to issuing cartoonish threats of potential reprisals, and no one can doubt the obvious supremacy of the U.S. military in managing any threat arising from the Middle East. However, Tehran and its proxies vastly outnumber the current American force presence in key regional conflicts, and its leadership shares a paranoid worldview and a conviction that a fierce offense is the best defense. The risks are real, and they are most effectively mitigated with careful preparation.

Conclusion

It is necessary and appropriate to push back on Iran's spread of malign influence. However, any such efforts are guaranteed to fail unless they are accompanied by an equally serious and sustained effort on the part of the United States to exhort, guide, and support meaningful political, economic and social reform in the Arab world and efforts at fashioning political solutions to the unwinnable conflicts in Yemen and Syria. Iran is engaged in all of the region's chief conflicts, but it does not therefore follow that in the absence of Iran's malign influence, those conflicts would abate. Tehran was not the progenitor of upheaval in most of the countries where its forces and proxies now hold sway. Rather, Iran has taken advantage of upheaval and domestic grievances that emerged indigenously across the Arab world, and any sensible long-term American strategy would invest resources and energy in addressing those challenges.

Like most complex challenges, the problem of Iran has resisted quick fixes for nearly four decades, and American leadership in managing the multi-faceted threats posed by Tehran will remain essential. However, the nuclear deal demonstrates that sustained collaboration among world powers can blunt Tehran's most grievous policies and simultaneously provide Iran with a clear pathway for a more mutually beneficial engagement with the world.



Statement before the House Financial Services Committee
Subcommittee on Terrorism and Illicit Finance
Subcommittee on Monetary Policy and Trade

On "Increasing the Effectiveness of Non-Nuclear Sanctions on Iran"

Iran's Role in Destabilizing the Middle East and Implications for New Non-Nuclear U.S. Sanctions

J. MATTHEW MCINNIS
Resident Fellow

April 4, 2017

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Chairman Pearce, Chairman Barr, Ranking Member Perlmutter, Ranking Member Moore and distinguished committee members:

In 2017, we are at inflection point in Iran's strategy in the Middle East. The Joint Comprehensive Plan of Action (JCPOA) has given the Islamic Republic new resources and freed Tehran to focus on building its conventional military capacity to compete with its regional rivals more directly. Iran is also sensing, finally, some form of victory in the wars in Syria and Iraq. In the aftermath of these conflicts, the Iranian leadership will be left with an enormous degree of influence stretching from Beirut to Basra and beyond. Led by the Islamic Revolutionary Guard Corps, or IRGC, Tehran will also now have at its disposal a trans-national proxy army of Shia militia units with at least a couple hundred thousand personnel with hybrid warfare capabilities. This will pose significant challenges to our friends in the region and to our interest in stability in Middle East.

Why does Iran pursue these destabilizing activities? Since the 1979 Islamic Revolution, Tehran's foreign policy has been driven by a desire to reshape the Middle East under its political and ideological image. At the same time, Iran seeks to ensure more traditional regional power interests of economic growth and expanded spheres of influence. Iran seeks to spread its concepts of Islamic governance, to oppose the state of Israel, protect Shia populations, and to assert its regional hegemony by displacing the United States as the dominant regional power. Due to a relative disadvantage in conventional military capabilities, Tehran has pursued these objectives primarily through clandestine operations and unconventional warfare for the past thirty-eight years. In particular, Iran has utilized its "Resistance Network" of partners, proxies, and terrorist groups, including the Lebanese Hezbollah while employing a suite of deterrent capabilities including ballistic missiles and asymmetric naval platforms.

The executor of Iranian proxy policies, the IRGC, and in particular its paramilitary wing Quds Force (QF), was created by the Supreme Leader Ayatollah Ruhollah Khomeini in 1979 first to secure the revolution at home and then export the revolution abroad. Tehran significantly expanded the size and complexity of its proxy force in the past five years, due primarily to the wars in Syria and Iraq. Iran views these conflicts as existential threats and also gained an opportunity to experiment and create new warfighting capabilities. This new force not only includes the growth of the primary groups that form the "resistance network" such as Lebanese Hezbollah, and Iraqi groups like the Badr Corps, Khataib Hezbollah, and Asaib Ahl al-Haq. In addition to these established groups, Iran created new Shi'a militias throughout the region, like the Shia militias from Iraq, Afghanistan, and Pakistan and the mobilization of Iraqi and Syrian civilians into the Popular Mobilization Forces (PMF) and Nation Defense Forces (NDF) to fight in their own civil conflicts.

Iran continues to invest in training and arming its proxies and partners with increasingly advanced equipment, with its most trusted groups receiving the best weaponry. Lebanese Hezbollah acquired unmanned aerial vehicles and an estimated 100,000 to 150,000 rockets and missiles through Iranian assistance, including advanced air-to-ground and ground-to-sea missiles.¹ Iran's Iraqi proxies employed the QFs' signature improvised explosive device, the explosively formed projectiles against coalition forces in the last decade.²

Iran also continues its partnership with the Yemeni Shi'a rebel group in their civil war. So far, the group receives mostly small arms and training from Hezbollah and the IRGC, although there are indications the movement has gaining increasing Iranian rocket technology that can threaten both Saudi territory and Red Sea shipping lanes.³

Perhaps more important than weapons are the tremendous strides the IRGC made in the past five years advancing their proxies' deployability, interoperability, and capacity to conduct unconventional warfare. The corps effectively moves its Iraqi, Afghan, and Pakistani proxies into and out of the Syrian, Iraqi and possibly Yemeni theater as requirements demand. In addition to

building the NDF and coordinating with Lebanese Hezbollah, Russian, and Syrian government operations, the IRGC has begun rotating cadre of its brigade-level officers to Syria to train and lead the Shia militias in their counterinsurgency campaign.⁴

The IRI is in effect turning its resistance network into a transnational proxy army,⁵ with estimates of more than a quarter million personnel that are potentially responsive to IRGC direction.⁶ Iran's efforts to dominate the region also extend to conventional military force. Ballistic missiles have been the cornerstone of Iranian military strategy since the end of the Iran-Iraq War. Tehran lacks sufficient air and land forces to effectively project conventional power beyond its borders. It cannot establish air superiority or deploy large combat formations abroad. Missiles and its asymmetric naval forces in the Persian Gulf are an attempted substitute and deterrent.

Iranian missiles lack sufficiently precision-guided warheads and cannot yet be employed to reliably and accurately destroy adversaries' military targets. At least for now, these missiles are employed more for deterrent or coercive purposes against the Gulf Arab states and Israel. Iran understands that while regional rivals possess far more advanced air defense, armor, naval capabilities, the Gulf countries in particular continue to struggle to effectively integrate and operate their systems due to separate procurement processes and training deficiencies.

Iranian military doctrines and defense acquisition strategies aim to exploit this operational advantage and compensate for its own conventional disadvantage. The IRGC will continue to expand its asymmetric capabilities in order to both deter the Gulf States and Israel and to raise the cost for any future U.S. or allied actions in the Persian Gulf. The IRGC will keep investing in armed small boats, coastal defense cruise missiles, submarines, unmanned aerial vehicles, cyber, and other systems that frustrate U.S. and allied capacity to project power into the Persian Gulf or onto Iranian territory. Iran feels it must remind the region and the world of its ability to disrupt or control the Strait of Hormuz, as we have seen with continued harassment U.S. naval vessels and international shipping since the implementation of the JCPOA.

The critical question following the JCPOA is whether Iran can or will use its new resources to successfully modernize its missile, air, air defense, naval and land forces in the coming decades to directly challenge other regional powers or the United States. Will the Islamic Republic be able to decisively upset the balance of power in the region after the nuclear deal?

Towards a better non-nuclear sanctions strategy

How do we then stand up to Iran's destabilizing activities in the region and begin to dismantle Tehran's global terror network?

A re-invigorated economic warfare campaign against the Revolutionary Guard should be one component – along with well-coordinated political, military, intelligence and information campaigns – of a larger U.S. strategy against Iran's malign influence in the region. Since the end of the Iran-Iraq War, the IRGC slowly expanded its role in the Iranian economy with at least 20 percent estimated to be now under the Guard's control. The IRGC owns the state's largest construction firm, Khatam al-Anbiya, and has major stakes in the banking, energy, extractive, and manufacturing sectors. This is how the Guard is able to fuel so much of its operations, from missile and other weapons production, to proxy support worldwide. The United States has also often designated IRGC front companies that help Iran evade sanctions, acquire illicit technologies and transport weapons to partners. The Guard also operates most Iranian ports and is deeply involved in the commercial shipping and aviation sectors, which are critical elements in building and sustaining its proxy and terror networks in the Middle East.⁷

Designating a far greater number of IRGC entities or even the entire IRGC itself as a sanction designee for terrorism or support for terrorism can be a step in the right direction. Strict

enforcement of the JCPOA can also support these objectives. Even extremely vigorous application of existing authorities could be applied. But given the vast economic and operational reach of the Revolutionary Guard and the inevitable limitations of the U.S. bureaucracy – and not to mention political will of our allies and partners to enforce secondary sanctions – it will be critical to prioritize our efforts regardless of which approach is taken. Ultimately, Washington needs to ask first what we want to accomplish with our sanctions, rather than focus almost exclusively on the targets and means.

With this in mind, any Iran sanctions strategy to first blunt, then begin to diminish, and eventually erode the very foundations of Iran's destabilizing activities. Consequently, The United States should aim for these objectives:

- **Suppress Iranian military modernization to maintain U.S. and U.S.-allied military superiority around Iran.** Prevent Iran from making major military breakthroughs or shifting the regional balance of power. Shape the security environment, so that Iran must respond to U.S. maneuvering, not the other way around. At all times, Iran must understand that we have escalation dominance in any scenario. Critical to establishing and maintaining our deterrence against Tehran. Some actions could include:
 - Strict enforcement of the JCPOA, non-JCPOA sanctions, and other efforts that erode international financial confidence in Iran which will have secondary effects to suppress defense industrial investment and military modernization.
 - Deter, to the degree possible, Russian, Chinese and other sales of advanced equipment to Iran, through new sanctions or prevent any efforts to evade the United Nations conventional weapons sanctions while they remain.
- **Starve the IRGC's financial fuel.** The United States must seek to weaken the IRGC's ability to generate revenue from global markets and incentivize international divestment in IRGC-affiliated businesses. Some actions could include
 - Robust enforcement of the JCPOA and other existing sanctions, particularly focusing on exposing the extent of IRGC ownership activity within the Iranian economy and network of front companies worldwide.
 - New actions against the IRGC could include designation under EO 13224 or expanded actions against IRGC affiliates like Lebanese Hezbollah, a designated foreign terror organization and key facilitator of Iran's global network of illicit financial activities through certain Lebanese financial institutions.
- **Disrupt the IRGC's logistical abilities.** The IRGC greatly expanded its capacity to move weapons and personnel around the region in the past six years. The United States must improve ways of preventing Iran's air, land, and sea shipment methods. Some of these actions could include:
 - Further close monitoring and potential new sanctions and designations against Iranian commercial aircraft used by the IRGC for the illicit transport of weapons and personnel into Syria, Iraq, Yemen and elsewhere.

- Explore opportunities for close monitoring and new sanctions and designation against Iranian commercial shipping, suspected to be used by the IRGC for illicit transport.
- **Disrupt and deter Iran’s ballistic missile program.** Iran will not give up or even meaningfully limit its ballistic missiles without an extremely tough fight. The program is too existential to the regime, more so than their nuclear program. We can, however, help push their program more “in the box” by disrupting their technological acquisition through sanctions. Some actions could include:
 - Targeting international and Iranian firms that supply the IRGC and affiliated entities that oversee ballistic missile production
 - Reinforcing existing sanctions and international technology control efforts to prevent the proliferation of key components that could advance Iran’s missile program
- **Drive down Iranian internal confidence in the regime.** To the degree that we can, the U.S. should leverage our soft power and expose the regime’s internal contradictions, corruption, massive expenses on overseas activities, human rights violations and. The more Washington and our allies can weaken Tehran’s proxies and undermine the success of Iranian revisionist foreign policy and regional influence, the more elites will doubt the sustainability of the regime’s model and ideologies. Some actions could include:
 - Increase designations and other enforcements EO 13553 against the IRGC and other Iranian actors for human rights abuses including those against political dissidents, religious minorities, and others.
 - Focus sanctions and designations against the IRGC to expose their degree of corruption and their extensive criminal and overseas networks
 - Expand sanctions and enforcement of existing sanctions against Iran’s most important proxies, such as Lebanese Hezbollah
- **New sanctions should not legally conflict with the JCPOA.** In its actions, the United States should stick to the “letter” of the JCPOA while simultaneously holding Iran accountable for strict adherence to the deal’s terms, support of terrorism in the region, provocative ballistic missile program development, human rights abuses and other destabilizing regional activities. At the same time, such sanctions can and likely should be part of a broader approach to shape the negotiating environment for successor or supplementary agreements, either bilateral or multilateral.

For nearly four decades, Iran has worked to undermine our allies and reshape the region in its image. No factor fuels sectarianism and breeds instability in the Middle East more than Tehran’s foreign policies and the IRGC’s activities. To combat this critical threat, the United States must arm itself with the will and capacity to follow through on effective strategies, beginning with smarter non-nuclear sanctions.

¹ Avi Issacharoff, “Israel Raises Hezbollah Rocket Estimate to 150,000,” Times of Israel, November 12,

2015, <http://www.timesofisrael.com/israel-raises-hezbollah-rocket-estimate-to-150000/>.

² Marcus Weisgerber, "How Many US Troops Were Killed By Iranian IEDs in Iraq?" DefenseOne, September 8, 2015, <http://www.defenseone.com/news/2015/09/how-many-us-troops-were-killed-iranian-ieds-iraq/120524/>.

³ Katherine Zimmerman, "Signaling Saudi Arabia: Iranian Support to Yemen's al Houthis," AEI Critical Threats Project, April 15, 2016, <http://www.criticalthreats.org/yemen/zimmerman-signaling-saudi-arabia-iranian-support-to-yemen-al-houthis-april-15-2016>.

⁴ Paul Bucala and Frederick W. Kagan, "Iran's Evolving Way of War: How the IRGC Fights in Syria," AEI Critical Threats Project, March 24, 2016, <http://www.irantracker.org/analysis/bucala-kagan-irans-evolving-way-of-war-how-irgc-fights-in-syria-march-24-2016>.

⁵ Retired IRGC Commander Mohammad Ali Al Falaki has coined the term "Shia liberation army" for the collection of partners and militias currently operating under IRGC command in Syria, Iraq, and Yemen. This term has received coverage in both the Persian-language and English-language press, although it does not appear to be in widespread use among Iran's political leadership at this time. See "Reports: Iran Forms 'Liberation Army' to Deploy Abroad," Al Jazeera, August 20, 2016, <http://www.aljazeera.com/news/2016/08/iran-raises-force-deploy-arab-states-reports-160820061102379.html>; and Amir Tournaj, "IRGC Commander Discusses Afghan Militia, 'Shia Liberation Army,' and Syria," The Long War Journal, August 24, 2016, <http://www.longwarjournal.org/archives/2016/08/irgc-commander-discusses-afghan-militia-shia-liberation-army-and-syria.php>.

⁶ In total, the IRI has 13,000 to 15,000 of its proxy forces fighting in Syria in addition to the NDF. In Iraq, perhaps 30,000 or more of those 80,000 personnel can be considered direct Iranian proxies consisting of KH, AAH, and Badr Corps. The remaining 50,000 mostly include those who follow Muqtada al Sadr. Across all these groups, Iran could employ approximately 75,000 to 80,000 fighters for direct retaliatory deterrence purposes. The rest conduct secondary deterrence as a bulwark against foreign interference in Iran's sphere of influence.

⁷ Greg Bruno, Jayshree Bajoria, and Jonathan Masters, "Iran's Revolutionary Guard," Council on Foreign Relations, June 14, 2013. (<http://www.cfr.org/iran/iransrevolutionary-guards/p14324>); Emanuele Ottolenghi and Saeed Ghasseminejad, "Who Really Controls Iran's Economy?" The National Interest, May 20, 2015. (<http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>); Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," The RAND Corporation, 2009. (http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf); Mark Gregory, "Expanding Business Empire of Iran's Revolutionary Guards," BBC News (UK), July 26, 2010. (<http://www.bbc.com/news/world-middle-east-10743580>)

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

House Financial Services Monetary Policy and Trade,
and Terrorism and Illicit Finance Subcommittees

Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran

DR. EMANUELE OTTOLENGHI

Senior Fellow
Foundation for Defense of Democracies

Washington, DC
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www.defenddemocracy.org

INTRODUCTION

Chairman Barr, Chairman Pearce, ranking members Moore and Perlmutter, members of the committee, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, I thank you for the opportunity to testify.

The Joint Comprehensive Plan of Action (JCPOA) that was implemented in January 2016 has emboldened Iran and given its leaders additional resources to pursue their regional hegemonic ambitions. In theory, under the JCPOA, the United States retains both the authority and leverage to counter Iran's regional ambitions and ongoing support for terrorism, including through the use of non-nuclear sanctions. In practice, however, since the implementation of the JCPOA, this arsenal has been rarely used.

This is especially true with regards to Iran's ongoing airlifts to the Syrian regime of Bashar al-Assad and to Hezbollah, Iran's terror proxy in Lebanon. In fact, the JCPOA lifted decades of U.S. and international sanctions against Iran's civil aviation sector exactly at a time when the sector became vital to Tehran's war efforts in the Syrian theater. Put simply: Iran has devoted its commercial aviation sector to keeping Assad in power and Hezbollah armed to the teeth. The JCPOA, meanwhile, has made it legal to sell new aircraft to carriers that are complicit.

Iranian commercial carriers have been crisscrossing Iraqi airspace to deliver military support to Assad and Hezbollah since 2011, but they have increased their tempo since the summer of 2015, when Iran and Russia coordinated their efforts to save Assad's regime from crumbling in Aleppo. Hundreds of flights, most of them operated by commercial airlines using civilian aircraft, have helped reverse the course of that war.

The Iranian aviation sector has exposed the inadequacy of the JCPOA caveat that licensed items and services must be used "exclusively for commercial passenger aviation."¹ Currently, at least five Iranian and two Syrian commercial airlines are engaged in regular military airlifts to Damascus. They are:

- Iran Air (Iranian, national carrier, de-sanctioned under the JCPOA)
- Mahan Air (Iranian, privately owned, U.S. sanctioned)²
- Pouya Air (Iranian, IRGC owned, U.S. sanctioned)³
- Saha Airlines (Iranian, privately owned, not sanctioned)
- Fars Air Qeshm (Iranian, privately owned, not sanctioned)
- Cham Wings Airlines (Syrian, privately owned, U.S. sanctioned)⁴

¹ Joint Comprehensive Plan of Action, Vienna, July 14, 2015, Annex II – Sanctions related commitments, section 5.1.1. (http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_2_sanctions_related_commitments_en.pdf)

² U.S. Department of the Treasury, Press Release, "Treasury Designates Iranian Commercial Airline Linked to Iran's Support for Terrorism," October 12, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>)

³ U.S. Department of the Treasury, Press Release, "Treasury Targets Networks Linked to Iran," August 29, 2014. (<https://www.treasury.gov/press-center/press-releases/pages/j12618.aspx>)

⁴ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Additional Individuals and Entities in Response to Continuing Violence in Syria," December 23, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/j10690.aspx>)

- Syrian Arab Airlines (Syrian, national carrier, U.S. sanctioned).⁵

The Department of Treasury cited collusion between Iranian commercial airlines and Iran's Islamic Revolutionary Guards Corps (IRGC) in these military airlifts to Syria as a reason for its 2011 designations of Iran Air⁶ and Mahan Air.⁷ It also designated Syrian Arab Airlines in 2013⁸ and Cham Wings in 2016⁹ for transporting weapons and fighters to Syria. Clearly, these airlines are not ferrying civilian passengers between Tehran and Damascus.

The administration should suspend licensing for aircraft deals with Iranian commercial carriers while it conducts a thorough review of their role in the airlifts to Syria. The U.S. should proceed to revoke licenses and re-impose sanctions if that role were to be ascertained. But the only way to prevent U.S. manufacturers such as Boeing from supplying aircraft to Iranian entities involved in material support for terrorism is to rely on U.S. non-nuclear sanctions. While the United States cannot stop every plane, it can use sanctions to exact a heavy price on Iran's aviation sector.

U.S. sanctions can also target providers of material support to the Syria airlifts, both inside and outside Iran. The U.S. should use these sanctions to communicate to Iran that its continuous support for Assad and Hezbollah comes with a cost, one that, especially in the case of aviation, could diminish the economic benefits Iran accrued from the nuclear deal.

IRAN'S AVIATION SECTOR AND THE JCPOA

The JCPOA removed U.S. aviation sanctions against Iran. After nearly four decades, Iran is now able to buy new aircraft and original spare parts, and access training and maintenance. While initial U.S. sanctions passed in 1979 were not directly aimed at the aviation sector, broadly crafted sanctions affected Iran's ability to access goods and services for this industry.¹⁰ President Jimmy Carter first imposed sanctions freezing the assets of the Government of Iran ten days after the seizure of the American embassy in Tehran.¹¹ Over the next year, Carter expanded sanctions to

⁵ U.S. Department of the Treasury, Press Release, "Treasury Increases Sanctions Against Syria," May 16, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11947.aspx>)

⁶ U.S. Department of the Treasury, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

⁷ U.S. Department of the Treasury, Press Release, "Treasury Designates Iranian Commercial Airline Linked to Iran's Support for Terrorism," October 12, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>)

⁸ U.S. Department of the Treasury, Press Release, "Treasury Increases Sanctions Against Syria," May 16, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11947.aspx>)

⁹ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Additional Individuals and Entities in Response to Continuing Violence in Syria," December 23, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/j10690.aspx>)

¹⁰ For an overview of the history of U.S. sanctions against Iran, see: Yishai Schwartz, "Iran Sanctions 101: A Historical Primer," *Lawfare*, February 2, 2015. (<https://www.lawfareblog.com/iran-sanctions-101-historical-primer>); Kenneth Katzman, "Iran Sanctions," *Congressional Research Service*, March 23, 2016. (<https://www.fas.org/sgp/crs/mideast/RS20871.pdf>); Gary Samore, Ed., "Sanctions Against Iran: A Guide to Targets, Terms, and Timetables," *Belfer Center for Science and International Affairs*, June 2015, pages 3-11. (<http://belfercenter.ksg.harvard.edu/files/Iran%20Sanctions.pdf>)

¹¹ Executive Order 12170, "Blocking Iranian Government property," November 14, 1979. (<http://www.archives.gov/federal-register/codification/executive-order/12170.html>)

include, *inter alia*, the prohibitions on the export of any U.S.-origin goods (with certain humanitarian exceptions) including those for Iran's aviation sector.¹²

These prohibitions were revoked in 1981 following the resolution of the Iranian hostage crisis.¹³ But after a series of terrorist attacks by Iranian-backed groups and the 1983 bombing of the U.S. Marine barracks in Beirut, President Ronald Reagan designated Iran as a state sponsor of terrorism in January 1984.¹⁴ This designation imposed sanctions under the Export Administration Act, the Arms Export Control Act, and the Foreign Assistance Act, which together prohibit the export of military goods, restrict exports of certain dual-use items, and prohibit U.S. foreign assistance. Controlled dual-use goods include those related to Navigation and Avionics, and Aerospace and Propulsion.¹⁵ Additionally, certain aircraft parts applicable to both commercial and military aircraft were also restricted under the U.S. Munitions List.¹⁶

The rules governing the export and re-export of all U.S.-origin goods are set out in the Export Administration Regulations (EAR).¹⁷ "Re-export" is the secondary sale of a good from one foreign country to another after it has already been exported from the United States.¹⁸ The EAR also requires foreign companies to receive export licenses if their goods contain a *de minimis* level of U.S.-made component parts depending on the type of good, the use, and the end-user.

During the 1980s and early 1990s, licenses for the direct export of U.S.-origin goods to Iran were generally denied, but the bans on re-exports to Iran and the sale of foreign goods with U.S. component parts contained several exceptions,¹⁹ including for certain navigation and aircraft parts.²⁰ The exceptions also allowed foreign companies to re-export navigation and aircraft parts

¹² Executive Order 12205, "Prohibiting certain transactions with Iran," April 7, 1980.

(<http://www.archives.gov/federal-register/codification/executive-order/12205.html>); Executive Order 12211, "Further prohibitions on transactions with Iran," April 17, 1980. (<http://www.archives.gov/federal-register/codification/executive-order/12211.html>)

¹³ Executive Order 12282, "Revocation of prohibitions against transactions involving Iran," January 19, 1981. (<http://www.archives.gov/federal-register/codification/executive-order/12282.html>)

¹⁴ U.S. Department of State, Bureau of Counterterrorism, "State Sponsors of Terrorism," accessed May 17, 2016. (<http://www.state.gov/j/ct/list/c14151.htm>)

¹⁵ U.S. Department of Commerce, Bureau of Industry and Security, "Export Administration Regulation Downloadable Files," accessed June 1, 2016. (<http://www.bis.doc.gov/index.php/regulations/export-administration-regulations-ear>)

¹⁶ Joseph D. West, Judith A. Lee, and Jason A. Monahan, "U.S. Export Control Compliance Requirements For Government Contractors," *Thomson West Briefing Papers*, November 2005.

(<http://www.gibsondunn.com/store/documents/pubs/West-J-Lee-MonahanBriefingPapers1105.pdf>)

¹⁷ U.S. Department of Commerce, Bureau of Industry and Security, "Legal Authority: Export Administration Regulations," January 23, 2013, page 66. (https://www.bis.doc.gov/index.php/forms-documents/doc_view/16-legal-authority); The Export Administration Act of 1979, Pub. L. 108-458, codified as amended at 50 U.S.C. §5. (<http://legcounsel.house.gov/Comps/ear79.pdf>)

¹⁸ U.S. Department of Commerce, Bureau of Industry and Security "Guidance to the Commerce Department's Reexport Controls," accessed June 13, 2016, page 2. (https://www.bis.doc.gov/index.php/forms-documents/doc_view/4-guidelines-to-reexport-publications)

¹⁹ U.S. Department of Commerce, Bureau of Export Administration, "Export Administration Regulation; Simplification of Export Administration Regulations," 61 Federal Register 12714, March 25, 1996, §742.8 Anti-Terrorism: Iran, page 12790. (<https://www.gpo.gov/fdsys/pkg/FR-1996-03-25/pdf/96-4173.pdf>)

²⁰ U.S. Department of Commerce, "Category 7 - Navigation and Avionics," *Commerce Control List, Supplement No. 1 to Part 774*, pages 10-11. (https://www.bis.doc.gov/index.php/forms-documents/doc_view/1089-ccl7); U.S. Department of Commerce, "Category 9 - Aerospace and Propulsion," *Commerce Control List, Supplement No. 1 to*

without a license, and to sell these products to Iran without a license even if they contained U.S.-origin component parts.

Amidst continued Iranian malign behavior, the United States began significantly expanding sanctions against the Islamic Republic. Among other measures, President Bill Clinton issued Executive Order 13059 in 1999 prohibiting the export or re-export of all U.S.-origin goods to Iran²¹ and removing the navigation and aviation-related licensing exceptions, thus requiring export licenses for all sales to Iran's aviation industry.²²

Throughout the 1990s, Iran could purchase goods and equipment for its aircraft through third countries,²³ and according to industry insiders, export restrictions were not applicable or were not enforced on resellers of aircraft more than ten years after the date of manufacture.²⁴ The environment, however, began to change in 2006 as the Bush administration and then the Obama administration imposed more comprehensive financial sanctions against Iran.²⁵

Congress also contributed to these new restrictions through multiple bipartisan pieces of legislation.²⁶ Among other measures, legislation in 2010 banned the sale of refined petroleum products to Iran, including jet fuel and aviation gasoline.²⁷ This measure led international oil companies to cease refueling Iran Air planes in Europe and Asia, forcing the airline to cancel

Part 774, pages 20-22. (https://www.bis.doc.gov/index.php/forms-documents/doc_view/991-ccl9); U.S. Department of Commerce, Bureau of Export Administration, "Revisions to the Export Administration Regulations; Conforming Revisions to the Wassenaar Arrangement List of Dual-Use Items and Revisions to Antiterrorism Controls," August 7, 1998. (http://webapp1.dlib.indiana.edu/virtual_disk_library/index.cgi/5274509/FID661/bxa/pdf/fed_reg/1998/07aug98.pdf)

²¹ Presidential Documents, "Executive Order 13059 of August 19, 1997: Prohibiting Certain Transactions With Respect to Iran," 62 Federal Register 44531, August 19, 1997. (<https://www.treasury.gov/resource-center/sanctions/Documents/13059.pdf>)

²² U.S. Department of the Treasury, "Iranian Transactions Regulations: Implementation of Executive Order 13059," 64 Federal Register 20168, April 29, 1999. (<https://www.gpo.gov/fdsys/pkg/FR-1999-04-26/pdf/99-10179.pdf>)

²³ Ali Dadpay, "A Review of Iranian Aviation Industry: Victim of Sanctions or Creation of Mismanagement?" *Preliminary Draft Presented at the Conference on Iran's Economy, University of Chicago and University of Illinois*, October 2010, page 3. (<http://iraneeconomy.csames.illinois.edu/full%20papers/Dadpay%20-%20IranAviation.pdf>)

²⁴ "Post Sanctions and Opening Up Commercial Aviation - A View from Iran," *AirInsight*, May 31, 2016. (<http://airinsight.com/2016/05/31/post-sanctions-opening-commercial-aviation-view-iran/>)

²⁵ For an in-depth description of these efforts, see: Juan Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: Public Affairs, 2013), chapters 13-14; Mark Dubowitz and Annie Fixler, "SWIFT Warfare: Power, Blowback, and Hardening American Defenses," *Foundation for Defense of Democracies*, July 2015, Part 1. (http://www.defenddemocracy.org/content/uploads/publications/Cyber_Enabled_Swift.pdf)

²⁶ Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, Pub. L. 111-195, 124 Stat. 1312, codified as amended at 111 U.S.C. (<http://www.treasury.gov/resource-center/sanctions/Documents/hr2194.pdf>); National Defense Authorization Act for Fiscal Year 2012, Pub. L. 112-81, 125 Stat. 1298, codified as amended at 112 U.S.C. §1245. (<http://www.gpo.gov/fdsys/pkg/BILLS-112hr1540enr/pdf/BILLS-112hr1540enr.pdf>); Iran Threat Reduction and Syria Human Rights Act of 2012, Pub. L. 112-158, 126 Stat. 1214, codified as amended at 112 U.S.C. (<http://www.gpo.gov/fdsys/pkg/BILLS-112hr1905enr/pdf/BILLS-112hr1905enr.pdf>); National Defense Authorization Act for Fiscal Year 2013, Pub. L. 112-239, 126 Stat. 1632, codified as amended at 112 U.S.C. §§1241-1255. (<http://www.gpo.gov/fdsys/pkg/BILLS-112hr4310enr/pdf/BILLS-112hr4310enr.pdf>)

²⁷ Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, Pub. L. 111-195, 124 Stat. 1312, codified as amended at 111 U.S.C. §102. (<http://www.treasury.gov/resource-center/sanctions/Documents/hr2194.pdf>)

certain routes,²⁸ use secondary airports, or make technical stopovers for refueling along the way, adding to operational costs and inconvenience.²⁹

Even as sanctions on Iran escalated between 2006 and 2012, Treasury's Office of Foreign Assets Control (OFAC) permitted the export to Iran (with a license) of equipment and parts for airline safety if the equipment was exclusively for U.S.-origin civilian, commercial aircraft.³⁰ During this time, however, very few licenses were granted.³¹

Over the two decades of sanctions, Tehran repeatedly argued that the U.S. sanctions affected the safety and security of Iranian aircraft by denying Iran "new technology for fleet renewal, spare parts and safety-related aviation equipment."³² The sector was certainly beset across the board by fleet age and quality issues, limited access to original spare parts, access only to second-hand planes, and little or no access to technical assistance and maintenance. This is a striking contrast to 1979, when Iran Air had one of the most modern fleets. It retired the last of its eight Boeing 747s, whose average age was more than 35 years, in May 2016.³³ It continues to operate numerous Airbus aircraft, some of which were acquired second-hand, that are only marginally younger.³⁴

Officials with Iran's airlines have in recent years complained that they have been forced to ground numerous planes because they could not purchase the equipment to service them.³⁵ However, while

²⁸ Thomas Erdbrink, "Iran's Aging Airliner Fleet Seen as Faltering Under U.S. Sanctions," *The New York Times*, July 13, 2012. (http://www.nytimes.com/2012/07/14/world/middleeast/irans-airliners-falter-under-sanctions.html?_r=1)

²⁹ Gerald Traufetter, "The Geopolitics of Jet Fuel: Sanctions Create Headaches for Iran Air in Europe," *Spiegel* (Germany), October 1, 2012. (<http://www.spiegel.de/international/world/sanctions-create-problems-for-iran-air-in-europe-a-858886.html>)

³⁰ Erich Ferrari, "Aircraft Safety in Iran: OFAC is Not (Entirely) in the Way," *SanctionLaw*, April 7, 2010. (<http://sanctionlaw.com/aircraft-safety-in-iran-ofac-is-not-entirely-in-the-way/>); U.S. Department of the Treasury, Office of Foreign Assets Control, "Iranian Transactions Regulations," 77 Federal Register 64664, October 22, 2012, page 64682. (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/fr77_64664.pdf)

³¹ Between 2000 and 2010, however, according to a *New York Times* report, Boeing received only two licenses for Iran, out of a total of 10,000 licenses issued to American companies, to provide goods or services to Iran, Cuba, and Sudan. One of Boeing's licenses was to provide electronic maps to help the French civil aviation agency investigate the crash of an Iran Air plane. Of the 100 cases studies that *The New York Times* detailed in its reporting, no others involved civil aviation. Jo Becker, "U.S. Approved Business with Blacklisted Nations," *The New York Times*, December 24, 2010. (http://www.nytimes.com/2010/12/24/world/24sanctions.html?_r=0); "Licenses Granted to U.S. Companies Run the Gamut," *The New York Times*, December 24, 2010. (<http://www.nytimes.com/interactive/2010/12/24/world/24-sanctions.html>)

³² Islamic Republic of Iran, "The Safety Deficiencies Arising Out of the United States Sanctions Against the Civil Aviation of the Islamic Republic of Iran," *International Civil Aviation Organization Working Paper*, September 20, 2007, page 2. (http://www.icao.int/Meetings/AMC/MA/Assembly%2036th%20Session/wp275_en.pdf)

³³ "Iran Air retires last remaining pax B747-200," *Ch-Aviation*, May 11, 2016. (<http://www.ch-aviation.com/portal/news/46137-iran-air-retires-last-remaining-pax-b747-200>)

³⁴ Aaron S. Goldblatt and Roozbeh Aliabadi, "How sanctions relief will impact Iran's civil aviation industry," *The Hill*, June 5, 2014. (<http://thehill.com/blogs/congress-blog/foreign-policy/208085-how-sanctions-relief-will-impact-irans-civil-aviation>)

³⁵ For example, see David Kaminski-Morrow, "International sanctions force Iran Air to ground its Airbus A310 fleet, but restrictions may be lifted as part of nuclear deal," *Flight Global*, June 12, 2006. (<https://www.flightglobal.com/news/articles/international-sanctions-force-iran-air-to-ground-its-airbus-a310-fleet-but-restrictions-may-be-207182/>)

sanctions have certainly been a burden, five of the seven major crashes of civilian aircraft between 2000 and 2009 involved Russian (or Soviet) aircraft not subject to U.S. sanctions.³⁶

One can also easily make the case that these crashes were the result of corruption and mismanagement. A *Los Angeles Times* report from September 2009 quoted an industry expert accusing “politically motivated regulators of failing to adequately inspect and publicize aviation accidents, and of bending rules to accommodate well-connected airlines.”³⁷ The article cites a series of problems within the industry, including a lack of transparent investigations according to international standards and that “rules are bent to accommodate airlines with safety lapses.”

Remarkably, despite sanctions and these internal issues, Iran’s aviation industry has grown over the past decade, with total seat capacity for domestic and international flights increasing at an average three percent per year.³⁸

The United States has now lifted all restrictions³⁹ and removed all but four Iranian civilian airlines – Caspian Airlines, Mahan Air, Meraj Air, and Pouya Air – from its sanctions lists. With required licensing, companies can now sell planes, spare parts, and services to most of Iran’s aviation industry, and financial institutions can service these deals.

Since July 2015, Iran Air has signed multi-billion dollar deals with the world’s two largest aircraft manufacturers – Airbus and Boeing – for a reported 180 planes.⁴⁰ It signed another deal with the Italian-French joint venture ATR for 20 regional aircraft,⁴¹ and there could be additional deals with Canada’s Bombardier, Brazil’s Embraer, and Japan’s Mitsubishi.⁴² The list could grow further: Iran’s transportation minister announced that the country is looking to buy as many as 400-500

³⁶ “TIMELINE - Recent major plane crashes involving Iran,” *Reuters*, July 15, 2009.

(<http://in.reuters.com/article/idINIndia-41053520090715>)

³⁷ Borzou Daragahi, “Iran’s aviation regulation seen as a factor in air crashes,” *Los Angeles Times*, September 15, 2009. (<http://articles.latimes.com/2009/sep/15/world/fg-iran-aviation15>)

³⁸ “Window on Iran’s aviation market,” *OAG*, 2016. (<http://www.oag.com/window-on-irans-aviation-market-0>)

³⁹ The primary sanctions embargo broadly prohibiting trade between the United States and Iran remains in place; however, the U.S. government has issued licenses for trade in certain sectors, the aviation sector being one of them.

⁴⁰ “Iran selects Airbus for its civil aviation renewal,” *Airbus* (France), January 28, 2016.

(<http://www.airbus.com/presscentre/pressreleases/press-release-detail/detail/iran-deal/>)

⁴¹ Robert Wall, “Iran to Buy up to 40 ATR Turboprop Planes,” *The Wall Street Journal*, February 1, 2016.

(<http://www.wsj.com/articles/iran-to-buy-up-to-40-atr-turboprop-planes-1454330448>); “UPDATE 1-Iran Air finalizes deal to buy 20 ATR planes-report,” *Reuters*, February 15, 2017. (<http://www.reuters.com/article/iran-aircraft-idUSL8N1G067A>); “IranAir Expects Delayed ATR Deliveries amid Row with Canada,” *Aviation Iran*, March 9, 2017. (http://www.aviationiran.com/2017/03/09/iranair-expects-delayed-atr-deliveries-amid-row-with-canada/#.WN_WpVXYvIU)

⁴² Allison Lampert, “Bombardier says Iranian sales talks progress, denies new airline,” *Reuters*, April 24, 2016.

(<http://www.reuters.com/article/us-bombardier-canada-idUSKCN0XM007>); Lisandra Paraguassu, “UPDATE 2-Iran eyes Brazil deal for taxis, 50 Embraer jets -source,” *Reuters*, February 22, 2016.

(<http://www.reuters.com/article/embraer-brazil-iran-idUSL2N16114X>); Babak Dehghanpisheh, “Iran plans to buy 20 regional jets from Japan’s Mitsubishi Heavy,” *Reuters*, August 8, 2016. (<http://www.reuters.com/article/us-iran-aircraft-mitsubishi-idUSKCN10I0TA>)

aircraft in the next decade to replace the country's aging fleet,⁴³ a number that aviation sector experts consider consistent with Iran's market potential.⁴⁴

Treasury's Office of Foreign Assets Control (OFAC) issued general licenses for the sale of aircraft to Iran in September 2016 and began the process of licensing individual aircraft sales soon after.⁴⁵ Although financing is proving difficult,⁴⁶ it is not impossible.⁴⁷ Iranian officials believe that 85 percent of the costs for the Boeing deal will be covered by financing from a variety of foreign institutions, with the remainder paid by Iran in cash.⁴⁸ *Forbes* also recently reported an agreement with a foreign leasing company to cover financing for 77 aircraft that are part of the Airbus and Boeing deals with Iran Air.⁴⁹

Iran Air has already started to receive the new aircraft. Airbus delivered one A321 in January 2017⁵⁰ and two A330 in March.⁵¹ Two more A330 are on their way. ATR's first four turboprops are expected to join Iran Air's fleet soon.⁵² Meanwhile, Boeing's first deliveries to Iran Air are expected in April 2018.

Other Iranian airlines are also seeking to replace their aging fleets. Aseman Airlines, for example, reportedly reached a deal to lease seven Airbus jets in December 2016.⁵³ According to *Forbes*, Aseman is also negotiating a leasing deal for Boeing 737 aircraft.⁵⁴

⁴³ Asa Fitch, "Iran Planning to Bolster Airplane Fleet After Landmark Nuclear Deal," *The Wall Street Journal*, August 2, 2015. (<http://www.wsj.com/articles/iran-planning-to-bolster-airplane-fleet-after-landmark-nuclear-deal-1438514651>); Fred Pleitgen and Jim Boulden, "Iran wants to buy 500 planes and resume flights to U.S.," *CNN*, January 25, 2016. (<http://money.cnn.com/2016/01/25/news/iran-planes-tourism-us-flights/>)

⁴⁴ "Iran: a market with enormous aviation potential," *Airline Leader*, Issue 31, November 2015.

(<http://www.airlineleader.com/categories/regions/iran-a-market-with-enormous-aviation-potential-251107>)

⁴⁵ Jon Gambrell, "US Grants Airbus, Boeing a Chance to Sell Airplanes to Iran," *Bloomberg*, September 21, 2016.

(<https://www.bloomberg.com/news/articles/2016-09-21/urgent-airbus-says-us-grants-license-for-planes-in-iran-deal>)

⁴⁶ Mike Snider and Oren Dorell, "Boeing's \$16B aircraft deal with Iran Air faces challenges," *USA Today*, December 11, 2016. (<http://www.usatoday.com/story/money/business/2016/12/11/boeing-sell-80-jetliners-worth-166-billion-iran-air-aircraft-maker-said-sunday/95298168/>)

⁴⁷ "Iran Air secures financing for 47 aircraft; 12 Airbus deliveries in 2017," *Aviation Iran*, December 17, 2016.

(<http://www.aviationiran.com/2016/12/17/iran-air-secures-financing-47-aircraft-12-airbus-deliveries-2017/#.WN1sRjvvvIU>)

⁴⁸ "Iran Air Unveils Boeing Deal Financing Process," *Financial Tribune* (Iran), December 14, 2016.

(<https://financialtribune.com/articles/domestic-economy/55435/iran-air-unveils-boeing-deal-financing-process>)

⁴⁹ Dominic Dudley, "Iran reaches lease financing deal or 77 Boeing, Airbus planes," *Forbes*, February 17, 2017.

(<https://www.forbes.com/sites/dominicdudley/2017/02/17/iran-lease-finance-boeing-airbus/#752cd3854dfd>)

⁵⁰ "Iran Air takes delivery of its first 100 Airbus aircraft," *Airbus*, January 11, 2017.

(<http://www.airbus.com/presscentre/pressreleases/press-release-detail/detail/iran-air-takes-delivery-of-its-first-of-100-airbus-aircraft/>)

⁵¹ "Iran Air receives its first A330-200 as fleet upgrade continues," *Airbus*, March 10, 2017.

(<http://www.airbus.com/presscentre/pressreleases/press-release-detail/detail/iran-air-receives-its-first-a330-200-as-fleet-upgrade-continues/>); David Kaminiski-Morrow, "Iran Air Receives Second A330," *Flight Global*, March 25,

2017. (<https://www.flightglobal.com/news/articles/iran-air-receives-second-a330-435571/>)

⁵² "Iran Air Expects Delayed ATR Deliveries amid Row with Canada," *Aviation Iran*, March 9, 2017.

⁵³ Parisa Hafezi and Tim Hefer, "Iran's Aseman Airlines to lease seven Airbus Jet: sources," *Reuters*, December 15,

2016. (<http://www.reuters.com/article/us-airbus-group-iran-idUSKBN1441A9>)

⁵⁴ Dominic Dudley, "Iran reaches lease financing deal or 77 Boeing, Airbus planes," *Forbes*, February 17, 2017.

(<https://www.forbes.com/sites/dominicdudley/2017/02/17/iran-lease-finance-boeing-airbus/#752cd3854dfd>)

Iran's aviation sector is set to grow exponentially in the coming years. For the first time since the Iranian revolution of 1979, Iran can buy, operate, and maintain modern aircraft which, over time, will potentially allow Tehran to compete with Gulf aviation hubs such as Abu Dhabi, Doha, and Dubai.

The JCPOA has thus created a dilemma for U.S. policy: Given the industry's involvement in the Syria airlifts, it is in the U.S.'s interest to impose sanctions on Iran's aviation sector to prevent Iran from exploiting global commerce to aid its illicit activities. But, simultaneously, the end of long-standing U.S. aviation sanctions against Iran has opened the potentially lucrative Iranian market to the U.S. aviation industry. A \$16.6-billion deal between Boeing and Iran Air, and possible future deals between the U.S. aviation industry and other Iranian airlines, means that thousands of U.S. jobs are now at stake.

That is precisely the type of dilemma Iran wants us to face. These multi-billion dollar deals create a powerful argument against the re-imposition of sanctions. Iran could insulate its commercial industry from its military activities by relying solely on military aircraft. Instead, Tehran is using the JCPOA and the economic benefits it yields as a shield to protect its ongoing nefarious support for Assad and Hezbollah.

For the U.S., there are no half measures. Limiting sales to non-sanctioned entities will not prevent those involved in the airlifts from benefiting from the upgrade of the Iranian commercial air fleet. End user licenses may not be honored. Trained technicians could easily transfer knowledge to their counterparts in sanctioned airlines. In some cases, they themselves will likely repair aircraft involved in the airlifts, too. Spare parts might be sold to designated entities.

Simply put, a firewall cannot be established between Iran's commercial air traffic and its military airlifts to Syria. This is because Iran is using its civil aviation sector to fulfill its military needs.

IRAN'S AIRLIFTS TO SYRIA

Since the beginning of Syria's civil war in March 2011, more than half a million Syrians have lost their lives in the conflict. Syria has been emptied of its people. Half of the country's population is either internally displaced or has sought refuge in neighboring countries. The refugee crisis has spilled over into Europe as well, with an unprecedented wave of refugees seeking shelter. The Assad regime has also made systematic use of chemical weapons, ethnic cleansing, systematic torture, and indiscriminate attacks against civilian targets like hospitals and market places. Iran has provided financial assistance to the Assad regime to carry out these crimes, and it also provides military assistance ranging from hardware to additional manpower.

Much of Iran's assistance is hard to track. But its airlifts can be viewed rather openly, through flight tracking websites and software. Iranian aircraft have relied on deceptive practices – switching off transponders for parts of their journey, falsifying flight manifests, or concealing their destinations by broadcasting flight numbers associated with different itineraries.⁵⁵ But the evidence is clear. Iran has made its aviation sector a legitimate target for U.S. sanctions.

⁵⁵ Sohrab Ahmari, "The Mullahs' Syrian Airlift Gets a Boost," *The Wall Street Journal*, December 15, 2016. (<https://www.wsj.com/articles/the-mullahs-syrian-airlift-gets-a-boost-1481839332>); Bill Coffin, "Is the Iranian

The airlifts run counter to U.S. interests for the following reasons:

- Iran's airlifts provide Hezbollah and the Assad regime with continued access to advanced weaponry⁵⁶ and fresh troops⁵⁷ to sustain their ongoing engagement in Syria's civil war.
- The airlifts are therefore instrumental in facilitating ongoing war crimes and atrocities against the Syrian civilian population; is supporting the Assad regime's ethnic cleansing;⁵⁸ and is helping exacerbate the already dire refugee crisis triggered by Assad's war.
- The continuing flow of weapons to Hezbollah is cementing the terrorist group's role as a state within a state inside Lebanon.⁵⁹
- The participation of Shiite militias from Afghanistan,⁶⁰ Iraq,⁶¹ and Pakistan,⁶² alongside Hezbollah and the Syrian Army, in military operations is part of an ongoing effort to build a multi-national Shiite militia. These Shiite international brigades are fully integrated into and under the command of the IRGC military structure and provide Iran with a force multiplier in other regional theaters of conflict.⁶³
- The airlifts have greatly contributed to the Hezbollah/IRGC military buildup on the Israel-Syria border. Were a kinetic conflict to begin between Israel and Hezbollah, the IRGC could open a new front, leading to a direct Israel-Iran military showdown.⁶⁴

airline industry still filled with bandits?" *Compliance Week*, October 14, 2016.

(<https://www.complianceweek.com/blogs/coffin-on-compliance/is-the-iranian-airline-industry-still-filled-with-bandits#.WNwGnjvys2y>)

⁵⁶ Dana Somberg, "Israel: Iran is smuggling weapons to Hezbollah on commercial flights," *The Jerusalem Post* (Israel), November 22, 2016. (<http://www.jpost.com/Middle-East/Iran-News/Israel-Iran-is-smuggling-weapons-to-Hezbollah-on-commercial-flights-473344>)

⁵⁷ Nick Tattersall, "Fugitive VP says Iraq letting Iran ferry arms to Syria," *Reuters*, September 17, 2012 (<http://www.reuters.com/article/us-iraq-hashemi-idUSBRE88G0TB20120917>)

⁵⁸ Martin Chulov, "Iran repopulates Syria with Shi'a Muslims to help tighten regime's control," *The Guardian* (UK), January 13, 2017. (<https://www.theguardian.com/world/2017/jan/13/irans-syria-project-pushing-population-shifts-to-increase-influence>)

⁵⁹ Jesse Rosenfeld, "How the Syrian Civil War has Transformed Hezbollah," *The Nation*, March 30, 2017. (<https://www.thenation.com/article/how-the-syrian-civil-war-has-transformed-hezbollah/>)

⁶⁰ "Iran Sending Thousands of Afghans to Fight in Syria," *Human Rights Watch*, January 29, 2016. (<https://www.hrw.org/news/2016/01/29/iran-sending-thousands-afghans-fight-syria>)

⁶¹ Martin Chulov, Saeed Kamali Dehghan, and Patrick Wintour, "Iran hails victory in Aleppo as Shia militias boost Syria's Bashar al-Assad," *The Guardian* (UK), December 14, 2016.

(<https://www.theguardian.com/world/2016/dec/14/iran-aleppo-syria-shia-militia>)

⁶² Babak Dehghanpisheh, "Iran recruits Pakistani Shi'ites for combat in Syria," *Reuters*, December 10, 2015. (<http://www.reuters.com/article/us-mideast-crisis-syria-pakistan-iran-idUSKBN0TT22S20151210>)

⁶³ Hugh Naylor, "In Syria's Aleppo, Shia militias point to Iran's unparalleled influence," *The Washington Post*, November 20, 2016. (https://www.washingtonpost.com/world/middle_east/in-syrias-aleppo-shiite-militias-point-to-irans-unparalleled-influence/2016/11/20/2fa47c2-92cd-11e6-bc00-1a9756d4111b_story.html?utm_term=.3991c1ac1f3f)

⁶⁴ Lizzie Dearden, "Iranian Revolutionary Guards opposite Israeli troops on 1967 ceasefire line in Golan Heights as tensions mount," *The Independent* (UK), March 10, 2017. (<http://www.independent.co.uk/news/world/middle-east/syrian-civil-war-irgc-israel-golan-heights-benjamin-netanyahu-vladimir-putin-meeting-basij-a7622081.html>)

- Iran is using the airlifts to supply strategic ‘game-changing’ weapons to Hezbollah. Israel’s Air Force bombing raids against weapons convoys heading to Lebanon are a direct response to the increased flow of strategic arms from Syria to Lebanon – all facilitated by Iran.⁶⁵ If delivered, these weapons would likely facilitate a future escalation along the Israel-Lebanon border and potentially lead to a third Lebanon war.⁶⁶
- The inclusion of strategic weapons in the airlifts and Israel’s response thus puts the Israeli Air Force in the sights of Russian military aircraft, heightening the risks of a quick escalation in an already tense theater.⁶⁷

Iran’s airlifts have picked up in frequency and scope since Moscow and Tehran directly intervened in the conflict in the summer of 2015 to prevent Aleppo from falling into rebel hands. Flight tracking data indicate that, when all commercial airlines participating in the airlifts are considered, from Implementation Day on January 16, 2016 to March 30, 2017 there were a total of 690 flights from Iran to Syria. Of those, Iran Air operated 114, Mahan Air operated 231, Pouya Air operated 15, Syrian Arab Airlines operated 227, Cham Wings operated 100, Fars Air Qeshm operated two, and Saha Airlines operated one. By contrast, Iran’s Air Force flew its old Boeing 747 to Syria six times during that period, bringing the total of tracked flights to 696.

Clearly, the bulk of transport occurs on commercial aircraft, which in many cases are repurposed for commercial flights once the planes return to Tehran. For example, the Iran Air aircraft (EP-IEE) that flew from Abadan to Damascus on March 23, returned to Tehran, and departed on a scheduled flight for Istanbul the next day.⁶⁸ The Mahan Air aircraft (EP-MNF) that flew to Damascus through Abadan on March 30, flew back to Abadan, likely to deliver wounded fighters,⁶⁹ and then went on to Tehran and left on a scheduled flight for Ankara shortly after.⁷⁰

The two primary Iranian actors in the airlifts are Iran Air and Mahan Air, the two leading Iranian commercial carriers, with a combined 345 out of the 696 tracked flights, almost half of the total flights since January 2016. Both were designated by the U.S. Department of the Treasury in 2011.⁷¹ Treasury targeted Iran Air because the airline was providing material support and services to the

⁶⁵ John Reed & Erica Solomon, “Israeli air raids in Syria raise fears of wider conflict,” *The Financial Times* (UK), March 22, 2017. (<https://www.ft.com/content/e5625674-0ee6-11e7-b030-7689543946230>)

⁶⁶ Alexander Fullbright, “Hezbollah said to have obtained ‘game-changing’ anti-ship missiles,” *The Times of Israel*, February 19, 2017. (<http://www.timesofisrael.com/hezbollah-said-to-have-obtained-game-changing-anti-ship-missiles/>)

⁶⁷ Adam Chandler, “What’s behind Israel’s diplomatic flare-up with Russia,” *The Atlantic*, March 24, 2017. (<https://www.theatlantic.com/international/archive/2017/03/israel-russia-syria/520410/>)

⁶⁸ “EP-IEE Flight History,” *FlightRadar24*, accessed March 31, 2017 (requires subscription). (<https://www.flightradar24.com/data/aircraft/ep-ieee#cd51ac7>)

⁶⁹ MEMRI, “IRGC using Mahan Air civilian airliners to hide transfers of weapons and fighters to Syria, Yemen,” *Memri Special Dispatch n. 6814*, March 6, 2017. (<https://www.memri.org/reports/irgc-using-mahan-air-civilian-airliners-hide-transfer-weapons-and-fighters-syria-yemen>)

⁷⁰ “EP-MNF Flight History,” *FlightRadar24*, accessed March 31, 2017 (requires subscription). (<https://www.flightradar24.com/data/aircraft/ep-mnf>)

⁷¹ U.S. Department of the Treasury, Press Release, “Treasury Designates Iranian Commercial Airline Linked to Iran’s Support for Terrorism,” October 12, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tgl322.aspx>)

IRGC, Iran's Aerospace Industries Organization (AIO),⁷² and Iran's Ministry of Defense.⁷³ According to Treasury's statement at the time, the sanctions were related to transporting military-related equipment including rockets and missiles, activities not covered by the JCPOA.

Iran Air's cargo division was also previously singled out in United Nations Resolution 1929 (2010) for possible involvement in sanctions evasion.⁷⁴

In May 2012, Treasury designated Yas Air (later renamed Pouya Air) for supplying arms to Iranian proxies in Africa and Syria.⁷⁵ Later in 2012, Treasury listed 117 Iranian aircraft owned by Iran Air, Mahan Air, and Yas Air, concurrently releasing satellite imagery of Iran Air Cargo docking at Damascus International terminal.⁷⁶ At the time, Treasury stated, "In the summer of 2012, Iran used Iran Air and Mahan Air flights between Tehran and Damascus to send military and crowd control equipment to the Syrian regime. This activity was coordinated with Hizballah, which in mid-August was designated pursuant to E.O. 13582 for providing support to the Government of Syria."

Treasury has also targeted two Syrian airlines, Syrian Arab Airlines and Cham Wings,⁷⁷ for providing material support to the airlifts. Iranian carriers Fars Air Qeshm and Saha Airlines joined the airlifts only last week, when their aircraft was tracked for the first time on the Tehran-Damascus route. Both privately-owned airlines discontinued operations in 2013, so it is not clear whether they are operating these flights or whether the tracker is simply not up to date on the aircraft ownership.

Mahan remains under U.S. sanctions per Executive Order 13224 as a material supporter of terrorism. Iran Air, by contrast, is no longer sanctioned. The U.S. government delisted Iran Air because of a political agreement – the JCPOA – not based on merit. Iran Air was not sanctioned for nuclear proliferation: Its original designation in 2011 under E.O. 13382 mentioned material support to the IRGC, material support to Syria's internal repression, weapons' transfers to Syria, and the use of deceptive practices to conceal its cargo.

⁷² In May 2013, Treasury designated several entities providing support to Iran's aviation industry, including some involved in leasing aircraft to Iran Air. Detailing the basis for these sanctions, Treasury indicated that "Iran Air was designated pursuant to E.O. 13382 in June 2011 for providing support and services to Iran's IRGC, Ministry of Defense and Armed Forces (MODAF), and Iran's Aerospace Industries Organization (AIO)," although it made no reference to AIO in its original 2011 designation. U.S. Department of Treasury, Press Release, "Treasury Announces New Sanctions against Iran," May 31, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11965.aspx>).

⁷³ U.S. Department of the Treasury, "Fact Sheet: Treasury Sanctions Major Iranian Commercial Entities," June 23, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1217.aspx>)

⁷⁴ United Nations Security Council, Resolution 1929, June 9, 2010, page 7. (https://www.iaea.org/sites/default/files/unsc_res1929-2010.pdf)

⁷⁵ U.S. Department of the Treasury, Press Release, "Treasury Targets Iranian Arms Shipments," March 27, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1506.aspx>)

⁷⁶ U.S. Department of the Treasury, Press Release, "Treasury Designates Syrian Entity, Others Involved in Arms and Communications Procurement Networks and Identifies Blocked Iranian Aircraft," September 19, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1714.aspx>)

⁷⁷ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Additional Individuals and Entities in Response to Continuing Violence in Syria," December 23, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/j10690.aspx>); U.S. Department of the Treasury, Press Release, "Treasury Increases Sanctions Against Syria," May 16, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11947.aspx>)

Based on publicly available open source information, it is extremely likely that Iran Air is still an active participant in the airlifts. This conclusion is based on the following:

- There is no justification for frequent commercial flights to Damascus; Syria is a war zone with little tourism or commerce, yet it is served by an average of 11 flights a week.
- Iran Air operates flight number 697 from Tehran to Damascus twice a week. The flight cannot be purchased on Iran Air's booking website or through travel agencies and the booking website does not include Damascus among its destinations from Tehran's international airport, where the flights originate.
- Iran Air flight 697 occasionally makes a stopover in Abadan, a logistical hub for the Syria airlifts regularly used by other airlines. This diversion is inconsistent with international civil aviation regulations and suggests that the airline is trying to disguise its flight path.

The United States must determine if Iran Air is an active participant in Iran's airlifts to Syria. Such participation would make Iran Air eligible for an Executive Order 13224 designation, which would be entirely consistent with the JCPOA.

The United States should also renew its focus on Mahan Air, Iran's largest commercial carrier, a Specially Designated Global Terrorist entity under E.O. 13224, and the Iranian carrier with the largest number of flights to date in the Syria airlifts.

MAHAN AIR: A TROUBLING CASE STUDY

Mahan Air was founded in 1991 in Iran's Kerman province. From the very beginning, it maintained a close relationship with the IRGC and the Iranian government. Officially, Mahan is owned by a charitable organization, but a former senior manager for Mahan's procurement operations abroad, who agreed to speak to me on condition of anonymity for a report I co-authored in 2016 with my colleagues, Yaya Fanousie and Annie Fixler,⁷⁸ explained that the airline was controlled by the late Iranian President Akbar Hashemi Rafsanjani.⁷⁹ Hamid Arabnejad Khanooki, Mahan Air's chairman and CEO, is a former member of the IRGC, and according to our interlocutor, he is a veteran of the same local IRGC division that spawned IRGC-Quds Force Commander Qassem Soleimani.⁸⁰

⁷⁸ Emanuele Ottolenghi, Annie Fixler, and Yaya J. Fanousie, "Flying Above the Radar: Sanctions Evasion in the Iranian Aviation Sector," *Foundation for Defense of Democracies*, July 2016. (http://www.defenddemocracy.org/content/uploads/documents/Ottolenghi_Fixler_Fanousie_Aviation_Sanctions_Evasion.pdf)

⁷⁹ Such proximity was confirmed by a diplomatic cable filed by the U.S. Consulate in Istanbul in 2010. "Turkey-Iran Trade Woes; Rafsanjani Family and Business Allies Under Pressure," *WikiLeaks*, February 2, 2010. (https://www.wikileaks.org/plusd/cables/10ISTANBUL43_a.html)

⁸⁰ According to his U.S. Treasury designation, Arabnejad "has a close working relationship with IRGC-QF personnel and coordinates Mahan Air's support and services to the paramilitary group." U.S. Department of the Treasury, Press Release, "Treasury Announces New Sanctions Against Iran," May 31, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11965.aspx>)

These leaders reportedly were blood brothers on the frontline of the Iran-Iraq War in the 1980s. When Mahan was established, Arabnejad, a local Kermeni with a strong record of loyalty in the service, was entrusted with running the airline. Arabnejad is believed to have been the man in charge of Iran's clandestine military supply operation to Bosnia's Muslim forces during Yugoslavia's civil war in the 1990s.

This close connection to the IRGC is critical in understanding Mahan Air's role in the Syria airlifts.

Since Syria's civil war erupted in 2011, Mahan Air has been the IRGC's main conduit to carry weapons and personnel to Syria. The ongoing airlifts – which have surged since the summer of 2015 – provide key weapons and provisions to Syria's embattled president, Bashar al-Assad, and Iran's proxy terror group in Lebanon, Hezbollah. It has enabled Iran to deploy thousands of troops – including Afghan, Pakistani, and Iraqi militias – to Syria's battlefields.⁸¹

Mahan has not only managed to operate under a stifling sanctions environment, but it has modernized its aircraft – even after 2011. Given the relatively small size of the aviation industry, it is all the more remarkable that Mahan could circumvent sanctions. It did so mainly thanks to a network of front companies it established across numerous jurisdictions.

For example, Mahan used a UK firm headed by a dual UK-Iranian national for its 2007 purchase of six used Boeing 747 cargo aircraft. The firm used an Armenian registered subsidiary to purchase the aircraft and then re-exported them to Iran.⁸² The company also leased U.S.-origin aircraft to Mahan Air for flights to and from Iran. In 2010, the UK firm agreed to pay \$15 million in fines (one of the largest in history for an export violation) for illegally exporting three Boeing aircraft to Iran without an export license.⁸³

Mahan appears to have repeated this scheme on May 9, 2015, when it managed to acquire nine used Airbus aircraft (eight long-haul and one short- to medium-haul). For this procurement, instead of using a British company and an Armenian airline, Mahan relied on an Iraqi regional airline, Al-Naser Airlines (see Figure 1), and, per Treasury's designation, a Dubai-based company and its Syrian owner to broker the deal.⁸⁴

Al-Naser acted as intermediary and purchased all nine planes on Mahan's behalf, four of which were first transferred to a Maltese leasing company, Hifly Malta, and then to Al-Naser. There is no indication that Airbus or other European companies that owned or leased the planes prior to the

⁸¹ "Iran Sending Thousands of Afghans to Fight in Syria," *Human Rights Watch*, January 29, 2016.

(<https://www.hrw.org/news/2016/01/29/iran-sending-thousands-afghans-fight-syria>)

⁸² Laura Rozen, "UK firm pleads guilty to selling U.S. 747 to Iran," *Politico*, February 5, 2016.

(http://www.politico.com/blogs/laurarozen/0210/UK_firm_pleads_guilty_to_selling_US_747s_to_Iran.html)

⁸³ U.S. Department of Justice, Press Release, "U.K. Firm Pleads Guilty to Illegally Exporting Boeing 747 Aircraft to Iran," February 5, 2010. (<https://www.justice.gov/opa/pr/uk-firm-pleads-guilty-illegally-exporting-boeing-747-aircraft-iran>)

⁸⁴ U.S. Department of Treasury, Press Release, "Treasury Department targets those involved in Iranian scheme to purchase planes," May 21, 2015. (<https://www.treasury.gov/press-center/press-releases/Pages/jl10061.aspx>)

sale to Al-Naser were aware that the company planned to transfer the aircraft to Mahan Air in violation of U.S. sanctions.⁸⁵

To understand this scheme, my colleagues and I traced the ownership of the nine Airbus-made aircraft (seven A340-600s, one A340-300, and one A321-131 aircraft). Information from the British Civil Aviation Registry and open sources provide details of ownership for each plane until they were deregistered and transferred to either Iraq or Malta's civil aviation registries.

The scheme began in 2014. By that time, all of the planes – which had been previously leased by Virgin Atlantic and the Chinese Sezhuan Airlines – had reverted to their lessors: Blue Aviation Ltd (three aircraft), Airbus Financial Services (one aircraft), Avaio Ltd (one aircraft), Avaio 371 Ltd (one aircraft), Avaio 376 Leasing Ltd (one aircraft), and ILFC UK (two aircraft).⁸⁶ Avaio, Avaio 371, Avaio 376 Leasing, and Blue Aviation were all special purpose companies set up by Airbus for standard leasing purposes.⁸⁷

Then, one-by-one the planes were sold, deregistered from the UK aviation registry, and transferred to foreign registries. Four of the planes were first registered on the Maltese registry when they were purchased by HiFly Malta and then moved to the Iraqi registry, and one also passed through the Guernsey Island registry.⁸⁸ After Al-Naser took possession of all nine planes, it transferred them to Mahan Air.

An in-depth look at one plane helps explain the pattern: From December 2002 to December 2012, Virgin Atlantic operated Airbus A340-600 MSN (manufacture serial number) 449.⁸⁹ Then, the aircraft was put in storage for two years, and on November 19, 2014 it was registered in Malta. When Al-Naser leased the plane from HiFly Malta eight days later, it was transferred to the Iraqi registry.⁹⁰ The aircraft was again stored until May 2015, when it was transferred to Mahan Air, under its new EP-MMQ tail number. Al-Naser used the same technique for the other eight aircraft.

Figure 1: Mahan Air's 2015 Sanctions Evasion Scheme

⁸⁵ Virgin Atlantic, HiFly (the parent company of HiFly Malta), and AerCap (which merged with ILFC UK), declined to answer requests for comments. Airbus confirmed its relationship with its subsidiaries and stated that the company “fully respects international rules and export controls put in place by EU, US or UN in regards to Iran.” Email from Airbus Spokesman Justin Dubon to Emanuele Ottolenghi, July 7, 2016.

⁸⁶ By then, ILFC UK had merged with the Dutch company, AerCap NV.

⁸⁷ Email from Airbus Spokesman Justin Dubon to Emanuele Ottolenghi, July 7, 2016.

⁸⁸ “Channel Islands Guernsey Aircraft Register,” *Bones Aviation Page*, accessed July 7, 2016.

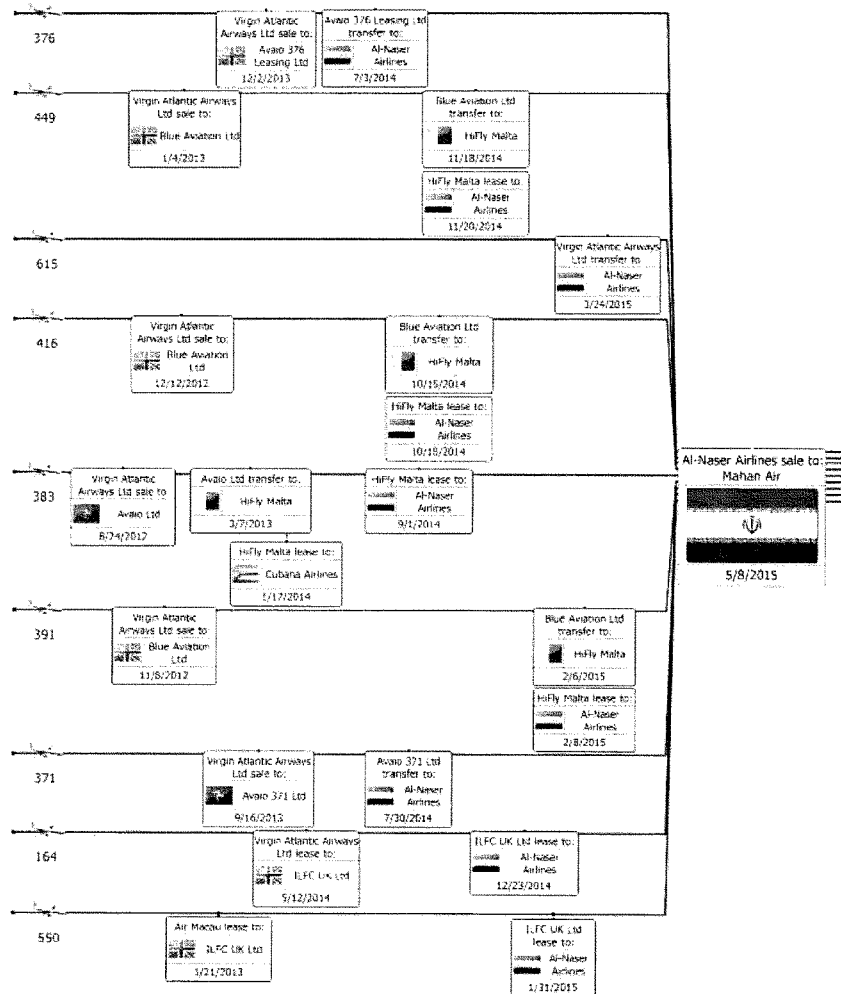
(<http://woodair.net/Guernsey%20Register/GuernseyRegister001.htm>)

⁸⁹ “Airbus A340 - MSN 449 - EP-MMQ,” *AirFleets.net*, accessed July 2, 2016.

(<http://www.airfleets.net/ficheapp/plane-a340-449.htm>)

⁹⁰ “EP-MMQ Mahan Airlines Airbus A340-642 - cn 449,” *PlaneSpotters.net*, accessed July 7, 2016.

(<https://www.planespotter.net/airframe/Airbus/A340/449/EP-MMQ-Mahan-Airlines>)



On May 21, 2015, the U.S. Department of the Treasury sanctioned Al-Naser Airlines along with Issam Shammout, a Syrian businessman, and his Dubai-based company Sky Blue Bird Aviation

FZE, for acting on behalf of Mahan Air.⁹¹ Sky Blue Bird Aviation and Shammout are believed to have mediated the transfer. Treasury also designated the nine planes.

Unfortunately, this action came too late. Mahan is currently operating all these aircraft on both European and Asian routes. Public information indicates that no country of destination has agreed to cooperate with U.S. efforts to impound the aircraft. Instead, Mahan Air lands at major international destinations where it receives services such as baggage handling, ticketing, and a variety of other ground services in violation of U.S. sanctions.⁹²

U.S. attempts to curb Mahan Air's commercial operations outside Iran, including in friendly countries such as Gulf states, NATO countries, and Asian partners, have so far yielded no tangible result. The existing U.S. sanctions have not discouraged European and Asian companies from transacting with Mahan Air, either. The reason for this is not that U.S. sanctions are ineffective. It is rather that the U.S. has so far declined to threaten sanctions against those who provide material support to Mahan Air.

RECOMMENDATIONS

Demand Transparency About Aircraft Sales to Iran Air and Other Iranian Airlines:

The financial terms of the Boeing and Airbus deals are surprisingly opaque.⁹³ Months of media speculation about the structure of these deals have failed to yield the entities involved in financing the transfer of aircraft to Iran and to conclusively determine the identity of the lenders. Given the high stakes involved in the sale of U.S.-manufactured aircraft to Iran, the world's foremost sponsor of terrorism, Congress is entitled to know. It should demand that Boeing and Airbus make those details public.

Congress may also consider inviting the two air industry giants to testify about the terms of their respective deals to ensure full transparency. The companies should be able to explain the following: What guarantees are in place to ensure that the new aircraft will not be engaged in nefarious activities? What mechanisms are in place to avoid losses to the American economy in case sanctions are re-imposed?

Ascertain Iran Air's Role in the Airlifts:

Congress and the Trump administration should instruct the intelligence community to ascertain whether Iran Air is an active participant in the Syria airlifts. Provided this involvement is confirmed, the administration should then re-designate Iran Air under Executive Order 13224 (and possibly under Syria-related executive orders) for its material support to the IRGC-Quds Force and Hezbollah in Syria.

⁹¹ U.S. Department of the Treasury, Press Release, "Treasury Department Targets Those Involved in Iranian Scheme to Purchase Airplanes," May 21, 2015. (<http://www.treasury.gov/press-center/press-releases/Pages/j110061.aspx>)

⁹² Julian Pequet, "U.S. seeks to block sanctioned Iranian airline's flights to Europe," *Al Monitor*, February 11, 2016. (<http://www.al-monitor.com/pulse/originals/2016/02/us-treasury-block-iran-airline-mahan-sanctions.html>)

⁹³ Zohre Alami, Hamid Reza Gholamzadeh, "Airbus Regional Director: Silence best strategy of Airbus on ambiguities of Iran Air deal," *Mehr News* (Iran), January 11, 2017. (<http://en.mehrnews.com/news/122642/Silence-best-strategy-of-Airbus-on-ambiguities-of-Iran-Air-deal>)

Should this prospect be confirmed, the administration should also immediately revoke OFAC's licenses authorizing sales of aviation industry items and services to Iran Air, and it should relist all of Iran Air's current fleet, including the new, recently delivered Airbus aircraft.

Punish Iranian and Foreign Providers of Material Support to Syria's Airlifts:

U.S. designations of airlines and aircraft involved in the Syria airlifts have relied on Executive Order 13224, which targets non-U.S. persons involved in providing material support to terrorist entities. However, the U.S. has not yet designated the senior management of the airlines involved in the airlifts. This would be a clear opportunity for the United States to increase economic pressure on relevant Iranian airlines.

Additionally, the United States should examine all companies that provide material support to designated aviation companies. This could include:

- Ground services for airlines, their crews, and their passengers
- Financial services
- Logistical support of operations – including the use of airports
- Provision of jet fuel to operate the planes
- Insurance services to cover their liability

Attached to my testimony is an appendix with a list of companies that act as service providers (including ticketing, general sales, check-in, baggage handling, crew transfers, and hospitality services) to Mahan Air at its many destinations. The administration should direct OFAC to review and corroborate this list. OFAC should also compile a similar list of service providers for Iran Air.

Congress should also request that Treasury detail its communication with these companies, especially in allied countries, to dissuade them from providing material support to Mahan. U.S. leverage is strong, particularly when it comes to companies that may have a U.S. business presence.

This attached appendix, once independently verified, should also serve as a basis for designating and/or fining providers of material support to Mahan Air (and Iran Air, if appropriate).

FDD research has identified Abadan as the main logistical hub for the IRGC-run airlifts to Syria. Other airports where Syria-bound flights frequently originate are Tehran's Imam Khomeini International Airport (IKA), and Yazd. These airports and the authorities managing them should also be designated under Executive Order 13224.

The U.S. should also consider designating the Abadan Refining Company and its parent company, the National Iran Oil Refining and Distribution Company, for selling jet fuel to the airlifts, pursuant to E.O. 13224. The Abadan Refining Company is the principal supplier of jet fuel in Iran.

The U.S. also should designate Iranian financial institutions used by Mahan Air to pay for services necessary to carry out the airlifts, including the purchase of jet fuel. To this end, the administration

Emanuele Ottolenghi

April 4, 2017

should send a joint State-Treasury team to discuss with foreign governments and foreign companies possible future action against non-Iranian companies that may be providing material support to newly designated Iranian entities. The team should note in public the nature of the mission and consequences that could occur.

Finally, the U.S. should designate the primary insurers of the aircraft involved in the airlifts, be they Iranian or foreign companies.

Chairman Burr, Chairman Pearce, these are my recommendations. I thank you for the invitation to testify and look forward to your questions.

APPENDIX: SERVICE PROVIDERS TO MAHAN AIR

City, Country	Type	Company	Address	Website	More information	Source
Yerevan, Armenia	Ticketing	TATEV-T.T.T. Tour Agency	19-1 Nalbanyan street, Yerevan, Armenia	http://www.tatev.com/	Tel: +374 10 524401 Fax: +374 10 524402 E-mail: mahanevn@tatev.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices ; "TATEV-T.T.T." Co.Ltd," Spyur Information System (Armenia), accessed October 25, 2016. (http://www.spyur.am/en/companies/tatev-ttt/679)
Diagem, Belgium	Ticketing	Aviareps BVBA	Jan Emiel Mommaertslaan 18B, 3rd floor, 1831 Diegem	www.aviareps.com	Call Center: +32(0)2-7120569 Sales: +32(0)2-7120584 Fax: +32(0)2-7258392 E-mail: mahan.bru@aviareps.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Phnom Penh, Cambodia	Ticketing	Schedule freight	Intercontinental Hotel, Regency Complex C, Suite no 23-24A/168 Monireth Blvd, Phnom Penh, Cambodia	http://schedulefreight.com/	Tel: +855-23 993 637 Mobile: +855 12499 682 Fax: +855-23 223 839 E-mail: rothany@schedulefreight.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Beijing, China	Ticketing	Shanghai Elite International Travel Co., Ltd	S121 Lufthansa Center Business Building, 50 Liangmaqiao Road, Beijing Kempinski Hotel, Beijing	N/A	Tel: +86 10 64680100 Fax: +86 10 64601890 Mobile: +86 13 910620872 Email: mahan-bj@m3eliteclub.com Email: na.cai@m3eliteclub.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Shanghai, China	Ticketing	Mahan Air Airport Office	Pudong International Airport, Terminal 2, Area B-C, No. B12-302	N/A	Tel & Fax: +86 21 6883 5006 E-mail: PVG@station.mahan.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

Shanghai, China	Ticketing	Shanghai Elite International Travel Co., Ltd	Room B, 2nd floor, City Hotel, No. 5-7 ShanXi Road, Shanghai	N/A	Tel: +86 21 22871200 > Fax: +86 21 22871212 Mobile: +86 13636383583 E-mail: mahan@m3eliteclub.com Email: sabrina.chen@m3eliteclub.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Guangzhou, China	Ticketing	Shanghai Elite International Travel Co., Ltd	B-1, 2, Tower 1, 120 Liuhua Road, Dongfang Hotel, Guangzhou	N/A	Tel: +86 20 86692170 Tel: +86 20 86018966 Fax: +86 020 86663553 E-mail: Lily.Huang@m3eliteclub.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Shanghai, China	Cargo	Pana Rise	Unit 1206, 12/F, HuaiHaiGuoJi Plaza, No. 45-49 East Huai Hai Road, HuangPu District, Shanghai 200021, China	http://www.panaris.com/	Phone: 0086 (180) 1600 7418 E-mail: markzhao@pana-rise.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Beijing, China	Cargo	Shanghai Unitrans International Logistics Co., Ltd	ChaoYang Road, ChaoYang District, Beijing, China Kempinski Hotel, Beijing	http://www.unitrans-lgs.cn/	Tel: 0086 10 670 82013 Tel: 0086 13 901 395289 Email: jerry@unitrans-lgs.com Email: air@unitrans-lgs.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Guangzhou, China	Cargo	Guangzhou Globair Air Services Co., Ltd.	Room 4H, DongFang Building, 417 Huangshi East Road, Guangzhou, China	N/A	Tel: (8620) 3761 9876 Fax: (8620) 3761 9973 E-mail : w5res@globair.cn	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices ; http://rahnama.tv/%D8%B3%DB%8C%D8%B1-%D9%88-%D8%B3%D9%81%D8%B1/
Copenhagen, Denmark	Ticketing	Mahan Air Denmark PSA: Khyber International A/S	Vester Farimagsgade 3 Sal 1 1606 Copenhagen V	N/A	Tel: +45 33 12 11 88 Email: mahan@Khyber.dk	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

Paris, France	Cargo	Fly US	6 RUE DU PAVE FRET 6 BUILDING B6 BP 18468 95708 ROISSY CDG CEDEX	N/A	Tel: +33 1 70 76 05 61-62-63 Fax: +33 1 70 03 96 97 E-mail: Cargosales.cdg@flyus.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Dusseldorf, Germany	Ticketing	Mahan Air Airport Office: Reservation/ Ticketing & Passenger Services	Dusseldorf International Airport Terminal C/ Office 1.727 Flughafenstr.1 40474 Dusseldorf	www.mahan.aero	Tel: +49 (0) 180592000466 Fax: +49 (0) 211 421 71432 E-mail: Dus@station.mahan.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Dusseldorf, Germany	Cargo	Transnautic Aircargo Agency GmbH	Dus-Air-Cargo-Center Eingang C Raum 4626 D-40474 Dusseldorf, Germany	http://www.transnautic.de/index.php/de/	Tel: +49 (0) 211 22 97 34-0 Fax: +49 (0) 211 22 97 34-24 E-mail: Baltes@transnautic.de Team: tndus@transnautic.de	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Frankfurt, Germany	Ticketing	Aviareps AG	Kaiserstraße 77 60329 Frankfurt am Main Germany	www.aviareps.com	Tel: +49 (0) 69 770 673 020 Fax: +49 (0) 69 770 673 028 E-mail: info.mahanair@aviareps.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Munich, Germany	Ticketing	Aviareps AG	N/A	www.aviareps.com	Tel: +49 69 7 70 67 30 20 E-mail: info.mahanair@aviareps.com	http://www.munich-airport.de/en/consumer/fluginfo/airlines/W5/index.jsp
Piraeus, Greece	Cargo	Be Accurate Ltd.	Filonos 113,GR-18535,Piraeus,Greece,	http://be-accurate.com/	Tel: +30 210 4594 401-6 Fax: +30 210 4595 419 E-mail: nikos.simou@be-accurate.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Kowloon, Hong Kong	Cargo	Globair Limited	Room 215, 2/F, Wing on Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.	http://globair.com.hk/	Phone: +852 2869 0668 +852 2869 0028 Fax: +852 2526 7207 E-mail: cargo@globair.com.hk	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

New Delhi, India	Ticketing	Minar Travels	M-34, Ground Floor, Outer Circle, Connaught Place, New Delhi 110001	http://www.minartravels.com/airline.html	Tel: +91 11 43 41 64 50-59 Fax: +91 11 23 41 64 10 E-mail: Ticketsminar@minartravels.com mahansales@minartravels.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
New Delhi, India	Ticketing	Minar Travels	Level 4, Room No. 107, Terminal 3, Indira Gandhi International Airport, New Delhi 110037	http://www.minartravels.com/airline.html	Tel: +91 1149 63 88 24 Fax: +91 1149 63 88 25 E-mail: dellhw5@minartravels.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
New Delhi, India	Cargo	Aargus Global Logistics Pvt Ltd	Basant Hotel, in front of Airport's main gate, Sangancr, Jaipur, India	http://www.aargusglobal.com/	Tel: +91 98 10036508 Email: info@aargusglobal.com	http://freightfolio.com/places/india/india/jaipur/freight-forwarder/aargus-global-logistics-pvt-ltd-6/
New Delhi, India	Cargo	Aerotek International	9-18 Ground Floor Lajpatnagar-II New Delhi-10024	http://www.aerotek.in/cargo-sales-agents	Tel: 9871924702, 9873663394.	http://www.aerotek.in/cargo-sales-agents
New Delhi, India	Cargo	Minar Travels	Room No. 18, First Floor, Public Amenities Building International Cargo Complex New Delhi 110037	http://www.minartravels.com/airline.html	Tel: +91 11 47 32 31 45 E-mail: W5delcargo@minartravels.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Sulaimaniye h, Iraq	Ticketing	Mahan Air Town Office	Salim ST, Behind Khshro Khal Bridge, Zozik- Air	N/A	Tel: +9647504450884 Tel: +9647504880884 Tel: +9647706512884	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Sulaimaniye h, Iraq	Ticketing	Hawar Hewa Abdulrahman	60M Malik Mahmood Street, Near Abu Sanaa Hotel, Sulaimaniyah-Iraq	http://www.zozik-air.net/	Tel: +964(771)3576565 Tel: +964(771)3577575 E-mail: mahan.isu@zozik-air.net	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Erbil, Iraq	Ticketing	Zozik Air	Galleria Mall Erbil, Gullan St.	http://www.zozik-air.net/	Tel: +964 7504018333 Tel: +964 7501339699 E-mail:	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

					Mahan.zozik@yahoo.com	ro/en/contact/sales-offices
Erbil, Iraq	Cargo	Zozik Air	40M Gulan Str ,Galleria Mall office 08, Erbil, Republic of Iraq	http://www.zozik-air.net/	Tel: +964 750 445 0884 +964 750 401 8333	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Milan, Italy	Ticketing	Holiday Travel Agency (HTA)	Via Monte Rosa ,74 ,20149, Milano, Italy	https://www.instagram.com/holidaytravelagency/	Tel: +39 0223170024 Mobile: +39 3484564438 E-mail: Holidaytravelitalia@gmail.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Milan, Italy	Ticketing	Apadana Travel Agency (ATA)	Via Mauro Macchi, 42 (Centrale), Milano, Italy	https://www.facebook.com/Travelapadana/	Tel: +39 02 98993715 Mobile: +39 3711585322 E-mail: travelapadana@gmail.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Milan, Italy	Ticketing	Iran Travel Agency (ITA)	Via Lazzaro Palazzi 2/A (MMI Porta Venezia) II Piano 20124, Milano, Italy	www.irantravelagency.it	Tel: +39 02 36644398-9 Tel: +39 3805836786 Email: info@irantravelagency.it	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Torino, Italy	Ticketing	Rafiki Viaggi	C.SO Toscana, 194/C-10151, Torino, Italy	http://www.rafikitorino.com/home.html	Tel: +39 0112207679 Tel: +39 3939374327 E-mail: rafikiviaggi@yahoo.it	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Torino, Italy	Ticketing	Arta Travel Agency (ATA)	Corso Unione Sovietica, 163/C, 10134, Torino, Italy	https://www.instagram.com/artatravel/	Tel: +39 011 5843469 Tel: +39 3804623607 E-mail: artatravelagency@libero.it	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Florence, Italy	Ticketing	Global Travel Agency co.(G.T.A)	Piazza Liberta, Ponte Rosso, Via Bolognese 2, Piano 2	https://www.facebook.com/GlobalTravelA/	Tel: +39 0559331081 Tel: +39 3293989481 Telegram: https://telegram.me/Global_Travel E-mail: global2016flight@gmail.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Milano, Italy	Cargo	Air Cargo S.r.l.	Malpensa Cargo City, 3° piano -- Building A	http://www.iasaircargo.it/news/	Tel: +39 02 74865216*8 FAX: +39 02 74865014 E-mail: k.rapana@iasaircargosrl.it E-mail:	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

					a.cossutta@iasaircargosrl.it	
Rome, Italy	Cargo	Air Cargo S.r.l.	Leonardo da Vinci Airport, Cargo City, Building N°3 – 1st Floor, 00050 Fiumicino	http://www.iasaircargo.it/news/	Tel: +39-06 65953288 Fax: +39 665953286 E-mail: mahan.booking@iasaircargosrl.it	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Tokyo, Japan	Cargo	International Marketing Inc.	Toranomon TBL Bldg. 8F. 1-19-9 Toranomon Minato-ku, Tokyo, 105-0001 Japan	http://www.imi-japan.jp/en/index.html	Tel: +81 3 5157 5756 Fax: +81 3 3593 6534 E-mail: momo@airsystem.jp	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Almaty, Kazakhstan	Ticketing	Mahan Air Town Office	Makatayeveva-128-1 str. Almaty, Republic of Kazakhstan	N/A	Tel: +7 727 3933114 Tel: +7 701 3382976 Tel: +7 727 3907046 Mobile: +7 701 755 4559 E-mail: Babakziace@mahan.kz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Almaty, Kazakhstan	Ticketing	Mahan Air Airport Office	N/A	N/A	Mobile: +7 701 7310195 E-mail: Yaukhadiyev@mahan.kz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Almaty, Kazakhstan	Ticketing	Mahan Air PAX GSA Almaty	Makatayeveva-128-1 str. Almaty, Republic of Kazakhstan	N/A	Tel: +7 727 3933114 Tel: +7 727 3907046 Mobile: +7 701 8800123 E-mail: Sales@mahan.kz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Almaty, Kazakhstan	Cargo	Mahan Air Cargo Office	Makatayeveva-128-1 str. Almaty, Republic of Kazakhstan	N/A	Tel: +7 727 3933114 Mobile: +7 701 9860804 E-mail: Cargo@mahan.kz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Almaty, Kazakhstan	Cargo	Tour Invest Co,	Republic of Kazakhstan, 050057, Almaty, Bostandyk district, Minbayeva Street, 68, 7flat,	N/A	Mobile: +7 701 8800122 E-mail: Cargo@mahan.kz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices ; http://rahnama.tv/%D8%B3%DB%8C%D8%B1-%D9%88-%D8%B3%D9%81%D8%B1/

Beirut, Lebanon	Cargo	Sky Gift Office	South dhahya street ,Sheikh zayed street Airport , MEA building , Second floor ,Sky gift office	N/A	Tel: +96 130 26662 +96 118 42147 +96 134 75249	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Kuala Lumpur, Malaysia	Ticketing	Mahan Air Town Office	C-LG-01 Lower Ground Floor Block C Megan Avenue 2, No. 12, Jalan Yap Kwan Seng 50450 Kuala Lumpur	N/A	Tel: + 603 216 35366 Tel: + 603 216 68 977 Fax: + 603 216 65 977 E-mail: kualalumpur@yahoo.com E-mail: Jef.dispatch@yahoo.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Kuala Lumpur, Malaysia	Ticketing	Mahan Air Airport Office	Lot C 15, Level 4, Main Terminal Building KL International Airport, Sepang 64000 Selangor Darul Ehsan Malaysia	N/A	Tel: + 603 877 65 385 Fax: + 603 877 65 549 E-mail: kul@office.mahanairlines.com E-mail: kul@station.mahan.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Sepang, Malaysia	Cargo	Icargos Sdn Bhd	Lot 202-3, 2nd Floor CSC Building, KLAS Cargo Complex, KLIA 64000 Sepang, Selangor	https://yellow.place/fr/mahan-travel-and-tourism-sdn-bhd-kuala-lumpur-malaysia	Tel: 603-8778 8781/2/3 Fax: 603-8778 8785 E-mail : lim@icargo.com.my akmal@icargo.com.my	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices ; https://www.mysbusiness.com/company/icargos-sdn-bhd
Amsterdam, Netherlands	Ticketing	Aviareps BV	Beechavenue 104 11 19 PP Schiphol the Netherlands	www.aviareps.com	Tel: +31 (0) 20 654 79 24 Tel: +31 (0) 20 520 02 81 Fax: +31 (0) 20 623 01 51 E-mail: mahanair.ams@aviareps.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Moscow, Russia	Ticketing	Aviareps AG	Business Center "Diamond Hall", 7th Floor Olimpiyskiy Prospekt, 14 -	www.aviareps.com	Tel: +7-(495)-775-39-73 Fax: +7 (495) 937-5951 E-mail: MahanAir.Russia@aviareps.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

			Moscow, Russia, 129090			
Jeddah, Saudi Arabia	Ticketing	Mahan Air Town Office	N/A	N/A	Tel: +96626685054 Fax: +96626684963	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Seoul, South Korea	Ticketing	Pacific Air Agency Group	12th Floor, Dong Hwa Bldg.58-7, Seosomun Dong, Choong- Ku, 100-110 Seoul, Korea	N/A	Tel: +96623178833-4 Fax: +96627559758	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Seoul, South Korea	Cargo	Pacific Air Agency Group	12 Th Floor. Dong Hwa Bldg. 58-7, Seosomun – Dong Choong – Ku, Seoul, Korea / Post 100 – 110	N/A	Tel: +822 317 8899 +822 317 8711 +822 317 8888 +822 317 8830 Fax: 0082 2 755 9758 E-mail: jpilpark@unitel.co.kr bmchung@paagrp.co.kr lim@icargo.com.my	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Colombo, Srilanka	Cargo	Taprobane Aviation	43/3 ,Kottawa lane 1, Embuldeniya,N ugegoda Mr.Kapila Chaminda Bandara	N/A	Tel: +71 209090 944 E-mail: wkchamindabandara@ gmail.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Colombo, Srilanka	Cargo	Delmege Air Services Pvt. Ltd	N/A	http://delmege.com/	N/A	http://www.ft.lk/article/136259/Middle-East-cargo-leader-links-up-with-Delmege-Air-Services-
Taipei, Taiwan	Cargo	Euro Travel Service	(Taipei Head Office) 5th Floor, No 62, Nan King East Road, Sec. 2, Taipei, Taiwan.	N/A	Tel: +886-225612310 Fax: +886-225361842 E-mail: service@euroexpress.c om.tw	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Bangkok, Thailand	Ticketing	My Aviation Co. Ltd.	140/65 ITF Tower, 27th Floor, Silom Road, Suriyawong, Bangrak,	http://www.hkong.net/537315-my-aviation-co-limited	Tel: +66 23 16 961 Fax: + 66 23 16 967 E-mail: tktbkw5@myaviation. biz Cargo E-mail:	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices

			Bangkok 10500 Thailand		natthapong@myaviation.biz	
Bangkok, Thailand	Cargo	My Aviation Co. Ltd.	140/65 ITF Tower, 27th Floor, Silom Road, Suriyawong, Bangrak, Bangkok 10500 Thailand	http://www.hkong.net/537315-my-aviation-co-limited	Tel: +66 22 316961 Fax: + 66 23 16 967 E-mail: natthapong@myaviation.biz	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices ; http://bigstory.ap.org/article/c7399b55fa264fd8968838026769d703/look-european-asian-nations-servicing-iranian-airline
Istanbul, Turkey	Ticketing	Andira Tour	Merkez Mah. Abide-i Hürriyet Cad. kaşo Apt. No: 80 Kat:5 Daire:9 Şişli/Istanbul	www.andiratour.com	Tel: +90 212 444 8540 Fax: +90 212 343 1086	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices ; https://www.facebook.com/pg/andiratourco/about/
Istanbul, Turkey	Ticketing	Mahan Air Airport Office	Ataturk International Airport, Main Hall, Mahan Air Office, Istanbul, Turkey	N/A	Tel: +90 212 663 9043 (direct) Tel: +90 212 463 3000-6655	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Istanbul, Turkey	Cargo	Air Mark	N/A	http://www.air-mark.com/Cargo/Gssa_Partners.htm	Tel: +90 212 244 2101 GSM: +90 212 249 1682	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Istanbul, Turkey	Cargo	IST - City Office	SAW - International Departure Terminal	N/A	DL: +901 - Istanbul Tel: +90 216 588 8992	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Ankara, Turkey	Ticketing	Andira Tour	Address: Büklüm Sok. No:10/5 06660, Kavaklıdere, Çankaya/Ankara	https://www.andiratour.com/	Tel: +90 312 425 7095 Fax: +90 312 425 7046	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices
Ankara, Turkey	Ticketing	ESB - International Departure Terminal	Counter Office DL 28 - Ankara	N/A	Tel: +90 312 398 2045	Information from Mahan Air website http://www.mahan.ac.ro/en/contact/sales-offices

Izmir, Turkey	Cargo	ADB - International Departure Terminal	Airport Office DL: 1911 - Izmir	N/A	Tel: +90 232 274 3353	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Istanbul, Turkey	Cargo	Air Mark	Yenibosna Merkez Mah. Cinar Cad. No:9 Kat:2 34197, Bahcelievler, Istanbul, TURKIYE	http://www.air-mark.com/Cargo/Gissa_Partners.htm	Tel: +90 212 444 1 472 Fax: +90 212 245 4486 alper.aksem@air-mark.com mahanair@air-mark.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Dubai, United Arab Emirates	Cargo	Gatewick LLC, a/k/a Gatewick Freight & Cargo Services a/k/a Gatewick Aviation Services	Office no.M22 1st Floor Dnata Building Freight Gate No.4 Dubai Airport Free zone United Arab Emirates .	N/A	Tel: +97 14 2991884 Fax: +97 14 2991885 marketing@gatewick-freight.com planning@gatewick-freight.com	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices ; http://www.uacresults.com/1192571/Airline_And_Aircraft_Support_Services/Dubai/Mahan_Air_GSA_Jahan_Destinations/ ; https://www.bis.doc.gov/index.php/forms-documents/about-bis/newsroom/395-bis-renews-temporary-denial-order-against-mahan-airways-of-iran-zarand-aviation-and-related-parties/file
Dubai, United Arab Emirates	Ticketing	Jahan Destinations	Address: Deira City of Dubai	https://www.facebook.com/JahanDXB/	Tel: +97142500202 Tel: +97142200105 Fax: +97142502122-3 E-mail: dxb@station.mahan.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Ho Chi Minh, Vietnam	Cargo	Globe Air cargo Vietnam	39B Truong Son Street, Tan Binh District, Ho Chi Minh City, Viet Nam	http://ecsgroup.aero/ecsfili/ale/vietnam-gac/	Tel: (84-8) 66522266 Fax: (84-8) 35471668 E-mail: sgn.vn@ecsgroup.aero	Information from Mahan Air website http://www.mahan.aero/en/contact/sales-offices
Ha Noi, Vietnam	Cargo	Globe Air Cargo Vietnam	4th Fl. NTS Building, Noi Bai Int'l Airport, Ha Noi, Viet Nam.	http://ecsgroup.aero/ecsfili/ale/vietnam-gac/	Tel: (84-4) 3584 3148 Fax: (84-4) 3584 3149 E-mail: han.vn@ecsgroup.aero	

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

House Financial Services Monetary Policy and Trade,
and Terrorism and Illicit Finance Subcommittees

Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran

BEHNAM BEN TALEBLU

Senior Iran Analyst
Foundation for Defense of Democracies

Washington, DC
April 4, 2017



www.defenddemocracy.org

Chairmen Barr and Pearce, Vice Chairmen Williams and Pittenger, Ranking Members Moore and Perlmutter, distinguished members of the House Committee on Financial Services, on behalf of the Foundation for Defense of Democracies, thank you for providing me with this opportunity to testify. It is a great privilege to be presenting my analysis alongside my colleague Dr. Emanuele Ottolenghi, as well as Matthew McInnis and Dr. Suzanne Maloney, all of whose scholarship on Iran I respect immensely. I will discuss today the Islamic Republic of Iran's non-nuclear threats, as well as potential U.S. policy options to deal with those threats.

Introduction

Our present discussion on how to push back against Iran's enduring "non-nuclear" threats is a product of diplomatic developments from the summer of 2015, when international negotiators from the P5+1 and Iran agreed to the Joint Comprehensive Plan of Action (JCPOA) nuclear deal. Despite its name, the agreement, which provided the Islamic Republic with over \$100 billion in upfront sanctions relief,¹ was anything but comprehensive. The JCPOA only temporarily deals with select aspects of the Islamic Republic's illicit nuclear program. The agreement does not address issues relevant to delivery vehicles like ballistic missiles,² despite assessments from the U.S. intelligence community that ballistic missiles were Tehran's "preferred method of delivering nuclear weapons."³ Compounding this problem, United Nations Security Council Resolution (UNSCR) 2231, which enshrined the accord,⁴ features an Annex containing watered-down prohibitions on missile testing, further indicative of an Iranian negotiating victory.⁵

And missiles are not the only challenge that the deal overlooked. The accord does not address Iran's illicit financial activities, support for terrorism, regional destabilization, and flagrant human rights abuses. These issues constitute Iran's enduring non-nuclear threats. They are "enduring" because they are the same issues that have made and kept Iran an international pariah.

With the removal or waiving of nuclear sanctions pursuant to the JCPOA as well as the informal sanctions relief Iran has received, it has become considerably difficult to influence the behavior of what Secretary of Defense James Mattis has called the "biggest state sponsor of terrorism."⁶

¹ Adam Szubin, "Written Testimony of Adam J. Szubin, Acting Under Secretary of Treasury for Terrorism and Financial Intelligence United States Senate Committee on Banking, Housing, And Urban Affairs," *Testimony before Senate Committee on Banking, Housing, and Urban Affairs*, August 5, 2015. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0144.aspx>)

² Behnam Ben Taleblu, "Don't Forget Iran's Ballistic Missiles," *War on the Rocks*, August 25, 2014. (<https://warontherocks.com/2014/08/dont-forget-irans-ballistic-missiles/>)

³ James R. Clapper, "Statement for the Record, Worldwide Threat Assessment of the US Intelligence Community," *Testimony before the Senate Select Committee on Intelligence*, January 29, 2014, page 6. (<http://online.wsj.com/public/resources/documents/DNIthreats2014.pdf>)

⁴ United Nations Security Council, "Resolution 2231 (2015): Ballistic missile-related transfers and activities," accessed March 25, 2016. (<http://www.un.org/en/sc/2231/restrictions-ballistic.shtml>)

⁵ See positions in: Parisa Hafezi and Louis Charbonneau, "Iran demands end to U.N. missile sanctions, West refuses," *Reuters*, July 6, 2015. (<http://www.reuters.com/article/us-iran-nuclear-idUSKCN0PF0HG20150706>). In 2014, Iranian officials held the line on not including missiles in talks. "روحانی: توان موشکی ایران به هیچ وجه قابل مذاکره نیست (Rouhani: Iran's Missile Capabilities Are By No Means Negotiable)," *Kayhan* (Iran) August 17, 2014. (<http://kayhan.ir/fa/news/21352>)

⁶ Defense Secretary James Mattis quoted in: "Iran is world's biggest state sponsor of terrorism, US says," *BBC News* (UK), February 4, 2017. (<http://www.bbc.com/news/world-us-canada-38868039>)

Assuming that the nuclear accord will remain in place,⁷ the immediate challenge for U.S. policy will be how to identify and erode Iran's non-nuclear threats. Such endeavors are not impossible, but require considerable political will and commitment over a long period of time.

Iran's Non-Nuclear Threats

Although there are a whole host of issues which have made the Islamic Republic of Iran a rogue regime – such as the abhorrent treatment of its own people – this testimony will focus on Iran's ballistic missile development, its support for terrorism and regional destabilization, and illicit financial activities.

Ballistic Missile Development

According to former Director of National Intelligence James Clapper, Iran currently possesses the largest arsenal of ballistic missiles in the entire Middle East.⁸ This arsenal grew out of the need to deter and retaliate against Iraqi Scud missile attacks during the 1980-1988 Iran-Iraq War.⁹ Iran continued to procure missile technology and parts from North Korea after the war,¹⁰ cognizant that a robust missile force could provide it with deterrent dividends that its weakened conventional military forces could not.¹¹ Over time and through overt and covert missile launches, ballistic missiles have come to form the backbone of Iran's military strategy.¹² While this strategy is predicated on deterrence,¹³ Tehran's missile forces can also be used to intimidate or coerce its regional rivals.¹⁴ It also permits the Islamic Republic to engage in persistent low-intensity conflict against Western and Israeli interests as well as sponsor terrorism without fear of kinetic reprisal.

Post-Nuclear Negotiations Ballistic Missile Testing

⁷ While it is too soon to tell what the Trump administration's policy will be with respect to the JCPOA, there are indications that the administration desires to keep the deal in place in the short-term. Specifically, Christopher Ford of the National Security Council told a conference hosted by The Carnegie Endowment for International Peace, "Until otherwise decided, the United States will adhere to the Iran nuclear deal and ensure that Iran also does." "White House Adviser Says Will Honor Iran Nuclear Deal, Ensure Iran Complies," *Radio Free Europe/Radio Liberty*, March 22, 2017. (<http://www.rferl.org/a/white-house-aide-ford-says-honor-iran-nuclear-deal-ensure-iran-complies/28383425.html>)

⁸ James R. Clapper, "Statement for the Record, Worldwide Threat Assessment of the US Intelligence Community," *Testimony before the Senate Armed Services Committee*, February 9, 2016, page 8. (https://www.dni.gov/files/documents/SASC_Unclassified_2016_ATA_SFR_FINAL.pdf)

⁹ Behnam Ben Taleblu, "The Long Shadow of the Iran-Iraq War," *The National Interest*, October 23, 2014. (<http://nationalinterest.org/feature/the-long-shadow-the-iran-iraq-war-11535?page=show>); Bilal Y. Saab and Michael Elleman, "Precision Fire: A Strategic Assessment of Iran's Conventional Missile Program," *The Atlantic Council*, September 2016. (http://www.atlanticcouncil.org/images/publications/Precision_Fire_web_0907.pdf)

¹⁰ "Iran Missile Milestones: 1985-2016," *Iran Watch*, July 13, 2016. (<http://www.iranwatch.org/our-publications/weapon-program-background-report/iran-missile-milestones-1985-2016>)

¹¹ Shahrām Chubin, *Iran's Nuclear Ambitions*, (Washington, DC: The Carnegie Endowment for International Peace, 2006), page 48.

¹² See the evolution of Iran's missiles in the PDF report available at: "قیام موشکی (Missile Uprising)," *Islamic Revolution Documentation Center (Iran)*, November 9, 2016, (<http://www.irdc.ir/fa/news/372/قیام-موشکی>)

¹³ U.S. Department of Defense, "Unclassified Report on Military Power of Iran," April 2010. (https://fas.org/man/eprint/dod_iran_2010.pdf)

¹⁴ Bilal Y. Saab and Michael Elleman, "Precision Fire: A Strategic Assessment of Iran's Conventional Missile Program," *The Atlantic Council*, September 2016. (http://www.atlanticcouncil.org/images/publications/Precision_Fire_web_0907.pdf)

Since agreeing to the nuclear deal in July 2015, a survey of open-source English- and Persian-language reporting reveals Iran may have tested up to 14 ballistic missiles as of February 2017. Missile launches permit Tehran to ascertain valuable data about a projectiles' readiness and performance. It also permits the regime to signal defiance to the international community. Thus far, the only discernable responses to these launches have been two sets of Treasury designations by the Obama administration in early 2016 and another batch from the Trump administration in early 2017. Below is a list of those reported missile launches.¹⁵

1. Fateh-313

- a. *Missile type:* Short-Range Ballistic Missile (SRBM)
- b. *Date launched:* August 2015
- c. *Importance:* The Fateh-313 allegedly upgrades the range and accuracy of Iran's single-stage solid-fuel Fateh-110.

2. Emad

- a. *Missile type:* Medium-Range Ballistic Missile (MRBM)
- b. *Date launched:* October 2015
- c. *Importance:* The Emad appears to have the body of an Iranian MRBM but with a new warhead with finlets¹⁶ that could allegedly aid in terminal phase steering. According to the Center for Strategic & International Studies, the Emad "is Iran's first maneuvering reentry vehicle equipped system."¹⁷

3. Ghadr-110 (aka Ghadr 1/Ghadr-101)

- a. *Missile type:* MRBM
- b. *Date launched:* November 2015
- c. *Importance:* According to the International Institute for Strategic Studies, the Ghadr (Qadr) is an upgraded Shahab-3 MRBM.¹⁸

4. Ghadr-F

- a. *Missile type:* MRBM
- b. *Date launched:* March 2016
- c. *Importance:* Fired during a two-day missile drill. The Ghadr platform was one of the first missiles launched by Iran after the JCPOA entered into force.

5. Ghadr-H

- a. *Missile type:* MRBM
- b. *Date launched:* March 2016

¹⁵ The list of 14 missiles is an abridged form (along with additional data) of the timeline in: Behnam Ben Taleblu, "Iranian Ballistic Missile Tests Since the Nuclear Deal," *Foundation for Defense of Democracies*, February 9, 2017. (http://www.defenddemocracy.org/content/uploads/documents/20917_Behnam_Ballistic_Missile.pdf)

¹⁶ Seen in images here: "Emad," *Military Edge*, accessed March 25, 2017.

(<http://militaryedge.org/armaments/emad/>)

¹⁷ Anthony H. Cordesman, "Iran's Rocket and Missile Forces and Strategic Options," *Center for Strategic & International Studies*, October 7, 2014, page 98. (https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/141007_Iran_Rocket_Missile_forces.pdf)

¹⁸ *Iran's Ballistic Missile Capabilities: A Net Assessment* (UK: The International Institute for Strategic Studies, 2010), pages 24 - 27.

- c. *Importance*: Two Ghadr-H's were believed to be fired during the two-day missile drill. At least one of them had an anti-Israel slogan in Persian and Hebrew on the missile's body quoting former Supreme Leader Ayatollah Khomeini.¹⁹

6. Ghadr-H

- a. *Missile type*: MRBM
- b. *Date launched*: March 2016
- c. *Importance*: See listing above.

7. Qiam-1

- a. *Missile type*: SRBM
- b. *Date launched*: March 2016
- c. *Importance*: There is a consensus among open sources that the Qiam-1 is a finless Shahab-2 (which itself is an Iranian copy of the Scud-C).²⁰

8. Shahab-3

- a. *Missile type*: MRBM
- b. *Date launched*: March 2016
- c. *Importance*: The Shahab-3 is a copy of the North Korean Nodong-A.²¹ It was also Iran's first missile that put Israel in striking distance.

9. Simorgh

- a. *Missile type*: Space Launch Vehicle (SLV)
- b. *Date launched*: April 2016
- c. *Importance*: Even though the Simorgh's launch is not technically the same as a missile test, it matters because the U.S. National Air and Space Intelligence Center assessed that Iran's SLVs "could serve as a test bed for developing ICBM technologies."²² An Iranian ICBM serves no military purpose other than to deliver weapons of mass destruction. It would also significantly bolster Iranian deterrence by being able to threaten Europe.

10. Unknown Ballistic Missile

- a. *Missile type*: Likely MRBM (a plausible but less likely alternative is an Intermediate-Range Ballistic Missile – IRBM)
- b. *Date launched*: April 2016

¹⁹ "پیام موشکی سپاه به زبان «عبری» مخایره شد: «ایران» (The IRGC's Missile Message was Transmitted in 'Hebrew': 'Israel's Missile Threat' Images)," *Fars News Agency* (Iran), March 9, 2016. (<http://www.farsnews.com/newstext.php?nn=13941219000316>)

²⁰ Michael Elleman, "Iran's Ballistic Missile Program," *Written Statement Presented to U.S. Senate Committee on Banking, Housing, and Urban Affairs*, May 24, 2016, page 3.

(https://www.banking.senate.gov/public/_cache/files/f64d023a-d6fc-4dc4-84a7-ea10ba8192cf/90DC029490361D182584B92FCAD76111.052416-elleman-testimony.pdf); "Shahab 2 (Scud-C variant)," *Center for Strategic & International Studies*, August 9, 2016.

(<https://missilethreat.csis.org/missile/shahab-2/>); "Qiam-1," *Military Edge*, accessed February 1, 2017.

(<http://militaryedge.org/armaments/qiam-1/>); "Scud C (Shahab-2/Hwasong-6)," *Military Edge*, accessed February 1, 2017. (<http://militaryedge.org/armaments/scud-c/>)

²¹ "Shahab-3A," *Military Edge*, accessed March 25, 2017. (<http://militaryedge.org/armaments/shahab-3a/>)

²² U.S. National Air and Space Intelligence Center, "Ballistic & Cruise Missile Threat," May 2013, page 3. (<https://info.publicintelligence.net/NASIC-BallisticMissileThreat.pdf>)

- c. *Importance:* N/A, but continued missile launches during the JCPOA implementation period have been labeled by former United Nations Secretary General Ban-Ki moon as contrary to “the constructive spirit” of the JCPOA.²³

11. BM-25 Musudan

- a. *Missile Type:* IRBM
- b. *Date launched:* July 2016
- c. *Importance:* Although the test was only reported by one outlet,²⁴ it has been alleged that Iran received the BM-25 from North Korea at some point in the mid-2000s.²⁵

12. Zulfikar (aka The Zolfaghar)

- a. *Missile type:* SRBM
- b. *Date launched:* September 2016
- c. *Importance:* Proof of Iran’s continued upgrading of the Fateh-110 class of surface-to-surface missiles. Iranian outlets claim this missile has a submunitions warhead.²⁶

13. Shahab-3

- a. *Missile type:* MRBM
- b. *Date launched:* December 2016
- c. *Importance:* See previous Shahab-3 entry.

14. Khorramshahr

- a. *Missile type:* Likely MRBM
- b. *Date launched:* January 2017
- c. *Importance:* First ballistic missile test under the Trump administration. According to Iranian sources, the name of the missile was announced in September 2016.²⁷

Since being put “on notice” by the White House in February,²⁸ Tehran has not fired another MRBM. It has however upped the ante by test-firing two Hormuz-2 anti-ship ballistic missiles near the Strait of Hormuz at a floating barge.²⁹ Iran’s anti-ship ballistic missiles compound the threat posed by its array of anti-ship cruise missiles, many of which it procured from China in the 1990s and reverse engineered. Anti-ship missiles can be used to threaten civilian and military vessels traversing the Persian Gulf.

Support for Terrorism and Regional Destabilization

²³ Noted in: Carol Morello, “Assessing the Iran nuclear deal one year after it was reached,” *The Washington Post*, July 13, 2016. (https://www.washingtonpost.com/world/national-security/assessing-the-iran-nuclear-deal-one-year-after-it-was-reached/2016/07/13/cf3de73a-4828-11e6-acbc-4d4870a079da_story.html?utm_term=.4243b49614ca)

²⁴ Lucas Tomlinson, “Exclusive: Iran conducts 4th missile test since signing nuke deal,” *Fox News*, July 15, 2016. (<http://www.foxnews.com/world/2016/07/15/exclusive-iran-conducts-4th-missile-test-since-signing-nuke-deal.html>)

²⁵ Uzi Rubin, “The Global Reach of Iran’s Missiles,” *Institute for National Security Studies* (Israel), November 2006, pages 29-36. ([http://www.inss.org.il/uploadimages/import/\(FILE\)1188302022.pdf](http://www.inss.org.il/uploadimages/import/(FILE)1188302022.pdf))

²⁶ “موشک ذوالفقار جدیدترین موشک ایرانی رونمایی شد + تصاویر” (The Zulfikar Missile ‘Iran’s Newest Missile is Unveiled + Images), *Tasnim News Agency* (Iran), September 21, 2016. (<https://www.tasnimnews.com/fa/news/1395/06/31/1191852/موشک-ذوالفقار-جدیدترین-موشک-ایرانی-رونمایی-شد-تصاویر>)

²⁷ “Iran to produce 3 types of missiles by year end: Defense minister,” *Press TV* (Iran), September 25, 2016. (<http://www.presstv.com/Detail/2016/09/25/486287/Iran-Hossein-Dehqan-Qadir>)

²⁸ The White House, Office of the Press Secretary, “Statement by the National Security Advisor,” February 1, 2017. (<https://www.whitehouse.gov/the-press-office/2017/02/01/statement-national-security-advisor>)

²⁹ “Iran successfully test-fires Hormuz-2 ballistic missile,” *Press TV* (Iran), March 9, 2017. (<http://www.presstv.ir/Detail/2017/03/09/513676/Iran-Hormuz-Amirali-Hajizadeh>)

Although Iran was formally designated as a “State Sponsor of Terrorism” in 1984,³⁰ in November 1979, mere months after the Islamic Republic was declared, radical Iranian students took over 50 diplomats hostage for 444 days and ransacked the U.S. embassy in Tehran.³¹ Since then, Iran has continued to engage in subversive behavior abroad. Iran has used proxies, like Lebanese Hezbollah, and elements of its intelligence and security apparatus, like the Islamic Revolutionary Guard Corps (IRGC) and its elite Quds-Force (IRGC-QF), to attack Western military and diplomatic facilities as well as civilian targets such cultural centers. In 1994, Iran bombed the AMIA Jewish Cultural Center in Buenos Aires, Argentina, killing 85 people.³² It has also assassinated Iranian dissidents throughout Europe, including Kurdish activists, a former prime minister, and a famous anti-regime musician.³³ The regime’s agents have also not hesitated to use diplomatic cover in their schemes.³⁴

Iran has conducted or supported acts of terror across four continents. The Central Intelligence Agency (CIA) noted in 1987: “Terrorism is an important instrument of Iranian foreign policy, used both to promote national interests and to export the regime’s revolutionary ideals.”³⁵ This remains true today. In 2010, the U.S. Department of Defense assessed that “over the last three decades, Iran has methodically cultivated ... terrorist surrogates capable of conducting effective, plausibly deniable attacks against Israel and the United States.”³⁶

Iran has never failed to employ creativity to engage in acts of terror. In 2011, a member of Iran’s IRGC-QF enlisted a family member living in the U.S. who sold used cars in an attempt to assassinate the Saudi ambassador to the U.S. at a popular restaurant in Georgetown.³⁷

³⁰ U.S. Department of State, Bureau of Counterterrorism and Countering Violent Extremism, “Country Reports on Terrorism 2015: Chapter 3: State Sponsors of Terrorism Overview,” June 2016. (<https://www.state.gov/j/crt/crt/2015/257520.htm>)

³¹ U.S. Department of State, Office of the Historian, “The Iranian Hostage Crisis,” accessed March 23, 2017. (<https://history.state.gov/departmenthistory/short-history/iraniancrises>)

³² Kenneth Katzman, “Iran’s Foreign and Defense Policies,” *Congressional Research Service*, February 6, 2017, page 6. (<https://fas.org/sgp/crs/mideast/R44017.pdf>); “Argentina identifies last victim of AMIA bombing, 22 years on,” *The Times of Israel* (Israel), August 11, 2016. (<http://www.timesofisrael.com/argentina-identifies-last-victim-of-amia-bombing-22-years-on/>)

³³ “No Safe Haven: Iran’s Global Assassination Campaign,” *Iran Human Rights Documentation Center*, May 2008. (<http://www.iranhrdc.org/english/publications/reports/3152-no-safe-haven-iran-s-global-assassination-campaign.html>)

³⁴ Jack Anderson and Dale Van Atta, “Rome A Center of Iran’s Terror Plotting,” *The Washington Post*, January 24, 1986. (<https://www.cia.gov/library/readingroom/docs/CIA-RDP90-00965R000100110151-5.pdf>); Dexter Filkins, “The Shadow Commander,” *The New Yorker*, September 30, 2013. (<http://www.newyorker.com/magazine/2013/09/30/the-shadow-commander>)

³⁵ Central Intelligence Agency, Director of Central Intelligence, “Iran’s Use of Terrorism: Interagency Intelligence Assessment,” September 1, 1987, page 1. (<https://www.cia.gov/library/readingroom/docs/CIA-RDP91T00498R000800100002-2.pdf>)

³⁶ U.S. Department of Defense, “Unclassified Report on Military Power of Iran,” April 2010, page 8. (https://fas.org/man/eprint/dod_iran_2010.pdf)

³⁷ Peter Finn, “Man in Iran-backed plot to kill Saudi ambassador gets 25 years,” *The Washington Post*, May 30, 2013. (https://www.washingtonpost.com/world/national-security/man-in-iran-backed-plot-to-kill-saudi-ambassador-gets-25-years/2013/05/30/0435c7a2-c952-11e2-8da7-d274bc611a47_story.html?utm_term=.78d468c33589)

In the Middle East, Iran supported terrorist groups and militias to bleed the U.S. while it operated in Iraq (2003-2011).³⁸ Iran even turned to its old-enemy, the Taliban, to go after U.S. and coalition forces in Afghanistan.³⁹ Despite Iran's Shiite and revolutionary leadership, according to the Department of Defense, the "IRGC-QF is not constrained by ideology; many of the groups it supports do not share, and sometimes openly oppose, Iranian revolutionary principles, but Iran supports them because they share common interests or enemies."⁴⁰ This helps to explain Iran's ties to the Sunni terrorist group al-Qaeda.⁴¹ In 2007, Osama bin Laden described Iran as the group's "main artery for funds."⁴² In 2012, the Treasury Department exposed the ties that Iran's Ministry of Intelligence had with al-Qaeda.⁴³

Similarly, Iran has supported all manner of Palestinian terrorist groups in an effort to destroy the State of Israel. One main group Iran backs is Hamas. Iran's support to Sunni Hamas has consisted of training and weapons,⁴⁴ as well as robust political and financial assistance in the 1990s and 2000s.⁴⁵ While Iran has brandished its provision of rockets like the Fajr-5 as late as 2014,⁴⁶ experts assess that the Syrian civil war had a dampening effect on Iran's funding to the group.⁴⁷

Recent/Ongoing Terrorism and Subversion Campaigns

³⁸ As noted throughout: Michael R. Gordon and Bernard E. Trainor, *The Endgame: The Inside Story of the Struggle for Iraq, from George W. Bush to Barack Obama*, (New York: Pantheon Books, 2012).

³⁹ U.S. Department of the Treasury, Press Release, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (<https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>)

⁴⁰ U.S. Department of Defense, "Unclassified Report on Military Power of Iran," April 2010, page 8. (https://fas.org/man/eprint/dod_iran_2010.pdf)

⁴¹ Thomas Jocelyn, "Treasury 'further exposes' Iran-al Qaeda relationship," *FDD's Long War Journal*, October 8, 2012. (http://www.longwarjournal.org/archives/2012/10/treasury_further_exp.php); Helene Cooper, "Treasury Accuses Iran of Aiding Al Qaeda," *The New York Times*, July 28, 2011.

(<http://www.nytimes.com/2011/07/29/world/29terror.html>); U.S. Department of the Treasury, Press Release, "Treasury Designates Three Senior Al-Qaida Members," July 20, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0523.aspx>)

⁴² Quoted in: Greg Miller and Julie Tate, "Osama bin Laden warned against almost every aspect of Islamic State playbook," *The Washington Post*, March 1, 2016. (https://www.washingtonpost.com/world/national-security/in-secret-will-bin-laden-wanted-his-fortune-to-keep-funding-war-on-west/2016/03/01/b3a03d6c-dfa4-11e5-846c-10191d1fc4ec_story.html?utm_term=.03c3d9413af1)

⁴³ Noted in: Thomas Jocelyn, "Doomed Diplomacy: There's no way Iran will ever help fight al Qaeda," *The Weekly Standard*, March 2, 2015. (<http://www.weeklystandard.com/doomed-diplomacy/article/859655>)

⁴⁴ U.S. Department of Defense, "Unclassified Report on Military Power of Iran," April 2010, page 9. (https://fas.org/man/eprint/dod_iran_2010.pdf); Kenneth Katzman, "Iran's Foreign and Defense Policies," *Congressional Research Service*, February 6, 2017, page 37. (<https://fas.org/sgp/crs/mideast/R44017.pdf>)

⁴⁵ Jonathan Schanzer, "Hamas's Benefactors: A Network of Terror," *Testimony before the Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa of the House Committee on Foreign Affairs*, September 9, 2014, pages 9-10. (http://www.defenddemocracy.org/content/uploads/publications/Schanzer_WrittenTestimony_HamasFinance_Sept9.pdf)

⁴⁶ "Iran says it gave Hamas missile technology," *Associated Press*, August 4, 2014. (<http://www.cbsnews.com/news/iran-says-it-gave-hamas-missile-technology/>)

⁴⁷ Jonathan Schanzer, "Hamas's Benefactors: A Network of Terror," *Testimony before the Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa of the House Committee on Foreign Affairs*, September 9, 2014. (<http://www.defenddemocracy.org/media-hit/schanzer-jonathan-hamas-benefactors-a-network-of-terror1/>)

The war in Syria has painted Iran as more of a Shiite sectarian actor than ever before. Iran calls the countless Shiite militiamen and IRGC/IRGC-QF fighters and officers who die in Syria “defenders of the shrine” in an effort to give religious legitimacy to their military mission.⁴⁸ Iran has also formed and deployed all-Afghan⁴⁹ and all-Pakistani⁵⁰ Shiite militias to bolster Assad.⁵¹ Similarly in Iraq, Iran continues to use the fight against the Islamic State (IS) to cement its presence through armed networks,⁵² attempting to make the Iraqi central government reliant on it.⁵³ However, news reports from 2016 indicate that Iran’s methods and disregard for Iraqi sovereignty has irked officials in Baghdad.⁵⁴ This presents U.S. policymakers with an opportunity to more visibly come to Baghdad’s aide and prevent it from falling into the clutches of the Islamic Republic.

Two years before the onset of the Syrian civil war, the Department of Defense estimated that Iran spent an average of \$100-\$200 million annually to keep Lebanese Hezbollah afloat.⁵⁵ Given that Iran has marshaled its Lebanese proxy to bail out the Assad regime,⁵⁶ this figure has likely grown in the past few years. Iran’s other Levantine partner, the embattled Assad regime, is desperate for money, men, and munitions, all of which Iran has been furnishing for over half a decade. According to an estimate by the office of the UN Special Envoy for Syria, Iran reportedly furnishes Assad with up to \$6 billion per year.⁵⁷ Such funding enables the Syrian government to persist in the war against its own people.

Elsewhere in the region, Iran continues to fall back on tried and true methods like distributing low-cost weaponry to jurisdictions of weak central authority where ethno-sectarian wars are raging.

⁴⁸ Bozorgmehr Sharafedin and Babak Dehghanpisheh, “Abandoning discretion, Iranians proclaim their role in Syrian war,” *Reuters*, September 21, 2016. (<http://www.reuters.com/article/mideast-crisis-iran-syria-idINKCN11R2EA>). This phenomenon is contextualized in: Afshon Ostovar, *Vanguard of the Imam: Religion, Politics, and Iran's Revolutionary Guards*, (New York: Oxford University Press, 2016), pages 204-208.

⁴⁹ Amir Toumaj, “IRGC commander discusses Afghan militia, ‘Shia liberation army,’ and Syria,” *FDD's Long War Journal*, August 24, 2016. (<http://www.longwarjournal.org/archives/2016/08/irgc-commander-discusses-afghan-militia-shia-liberation-army-and-syria.php>)

⁵⁰ “Iran in Syria: From an Ally of the Regime to an Occupying Force,” *Naame Shaam*, April 2016, Second Edition, page 7. (http://www.naameshaam.org/wp-content/uploads/2016/04/Iran_in_Syria_2edition_2016.pdf)

⁵¹ Ali Alfoneh, “Non-Iranian Shiites Paying the Price in Aleppo,” *The Washington Institute for Near East Policy*, August 31, 2016. (<http://www.washingtoninstitute.org/policy-analysis/view/non-iranian-shiites-paying-the-price-in-aleppo>)

⁵² Bill Roggio and Caleb Weiss, “Iraqi Shiite militia leader says he would overthrow government if ordered by Iran’s supreme leader,” *FDD's Long War Journal*, November 12, 2015. (<http://www.longwarjournal.org/archives/2015/11/us-designated-terrorist-of-iraqi-militia-reportedly-in-aleppo.php>)

⁵³ Posited in: Behnam Ben Taleblu, “Enemy of Convenience: Iran’s Fight Against Daesh,” *FRIDE*, December 2015. (http://fride.org/download/PB213_Iran_fight_against_Daesh.pdf)

⁵⁴ Maher Chmaytelli, “Iraq’s Abadi keeps Iran at arm’s length in war on Islamic State,” *Reuters*, February 22, 2016. (<http://www.reuters.com/article/us-mideast-crisis-abadi-insight-idUSKCN0VU0ER>)

⁵⁵ U.S. Department of Defense, “Unclassified Report on Military Power of Iran,” April 2010, page 8. (https://fas.org/man/cprint/dod_iran_2010.pdf)

⁵⁶ Martin Chulov, “Syrian town of Qusair falls to Hezbollah in breakthrough for Assad,” *The Guardian* (UK), June 5, 2013. (<https://www.theguardian.com/world/2013/jun/05/syria-army-seizes-qusair>); Sulome Anderson, “Hezbollah Is the Real Winner of the Battle of Aleppo,” *Newsweek*, January 9, 2017. (<http://www.newsweek.com/2017/01/20/hezbollah-real-winner-battle-aleppo-539558.html>)

⁵⁷ Eli Lake, “Iran Spends Billions to Prop Up Assad,” *Bloomberg*, June 9, 2015. (<https://www.bloomberg.com/view/articles/2015-06-09/iran-spends-billions-to-prop-up-assad>)

My colleague Patrick Megahan and I noted in 2015 that Iran is able to keep its adversaries' well-equipped conventional forces at bay by providing easy-to-produce munitions to militants which force its adversaries to develop expensive countermeasures.⁵⁸ Iran's support to the Houthis in Yemen exemplifies this. In early 2017, we cited Tehran's problematic provision of anti-tank missiles to the Houthis for use against Saudi-led coalition forces.⁵⁹ More recently, the U.S. State Department attested that the U.S. government has "seen indications Iran is providing missile support to the Houthis in Yemen."⁶⁰ Iran's arms transfers to Yemen have been interdicted multiple times, and violate the arms ban⁶¹ found in the Annex of UNSCR 2231.⁶²

Illicit Financial Activities

Iran's illicit financial activities continue to undermine the integrity of the rules-based financial order. Iran's financial activities often involve the movement of money to illicitly procure parts and technology for Iran's missile program,⁶³ as well as to sponsor terrorist activities.⁶⁴ However, even innocuous-looking transactions may involve illicit actors. As noted by the Financial Action Task Force (FATF) in February 2017, the organization "remain[s] concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system."⁶⁵ Additionally, Iran remains designated by the U.S. Treasury Department "as a jurisdiction of 'primary money laundering concern' under section 311 of the USA PATRIOT Act"⁶⁶ pursuant to a 2011 finding. The present hesitancy exhibited by European banks towards doing business with Iran is indicative of this status and concerns about Iranian financial institutions which lack anti-money laundering controls.

⁵⁸ Patrick Megahan and Behnam Ben Taleblu, "Putting Iran's Arms Proliferation Back in Business," *Military Edge*, August 5, 2015. (<http://militaryedge.org/analysis-articles/putting-irans-arms-proliferation-business/>)

⁵⁹ Behnam Ben Taleblu and Patrick Megahan, "Iran's Maritime Mirage," *The Cipher Brief*, January 3, 2017.

(<https://www.thecipherbrief.com/article/exclusive/middle-east/irans-maritime-mirage-power-projection-through-conventional-means>)

⁶⁰ U.S. Department of State, Press Release, "Iran, North Korea, and Syria Nonproliferation Act Sanctions," March 24, 2017. (<https://www.state.gov/r/pa/prs/ps/2017/03/269084.htm>)

⁶¹ United Nations Security Council, "Resolution 2221 (2015): Arms-related transfers," accessed March 27, 2017. (<http://www.un.org/en/sc/2231/restrictions-arms.shtml>)

⁶² Jericca Goodson, Simon Chin, and Valerie Lincy, "Iranian Arms Shipments to Yemen Violate U.N. Resolutions," *Iran Watch*, November 3, 2016. (<http://www.iranwatch.org/our-publications/policy-briefs/iranian-arms-shipments-yemen-violate-un-resolutions>)

⁶³ For reporting on this procurement throughout 2015, see: German Federal Ministry of the Interior, "2015 Annual Report on the Protection of the Constitution Facts and Trends, June 28, 2016, page 30.

(<https://www.verfassungsschutz.de/cmbd/annual-report-2015-summary.pdf>). On materials, see the applicability of the products purchased and the payments made in: Andrea Stricker, "Case Study: Guilty Plea for Charge of Exporting Metallic Powder to Iran," *Institute for Science and International Security*, March 23, 2017. (<http://isis-online.org/isis-reports/detail/case-study-guilty-plea-for-charge-of-exporting-metallic-powder-to-iran>). Also see the case of Karl Lee, in: "Li Fang Wei," *Iran Watch*, April 20, 2016. (<http://www.iranwatch.org/suppliers/li-fang-wei>).

⁶⁴ See examples in Louis Charbonneau, Jonathan Saul, and James Pomfret, "Exclusive: Iran uses China bank to transfer funds to Quds-linked companies – report," *Reuters*, November 18, 2014. (<http://www.reuters.com/article/us-iran-sanctions-china-exclusive-idUSKCN0J20CE20141119>) and U.S. Department of State, Bureau of Counterterrorism and Countering Violent Extremism, "Country Reports on Terrorism 2015: Chapter 3: State Sponsors of Terrorism Overview," accessed March 24, 2016. (<https://www.state.gov/j/ct/rls/crt/2015/257520.htm>)

⁶⁵ Financial Action Task Force, "Public Statement - 24 February 2017," February 27, 2017. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2017.html>)

⁶⁶ U.S. Department of the Treasury, Press Release, "Fact Sheet: New Sanctions on Iran," November 21, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1367.aspx>)

Prior to the nuclear deal, Iranian financial institutions faced an escalating series of sanctions that impeded their ability to conduct business as usual. To offset this, Iran developed work-arounds by using shell companies, dealing in cash and precious metals, as well as more sophisticated sanctions-busting schemes across different jurisdictions to continue to turn a profit. A key player in this regard was an Iranian businessman named Babak Zanjani. Zanjani reportedly sold over 20 million barrels of oil on behalf of Iran by abusing the legitimate financial system and working through a Malaysian financial institution which he owned.⁶⁷ Zanjani has fallen afoul of the Rouhani administration which has cracked down on corrupt officials from the Ahmadinejad-era (2005-2013). This campaign, however, should not be interpreted as an anti-corruption effort – Rouhani's men also engage in systemic corruption⁶⁸ – but rather political payback.

Targeting Iran's threat networks through sanctions is not only desirable, but possible. Doing so is consistent with the JCPOA as well as the broad contours of U.S. strategy toward the Islamic Republic of Iran over three decades. For the foreseeable future, it will remain in the national interest of the U.S. to erode Iran's ballistic missile progress, defend the integrity of the international financial system, and disrupt its terrorist networks.

Dealing with Iran's Non-Nuclear Threats while Maintaining the JCPOA

The JCPOA aims to forestall an Iranian nuclear weapon through infusions of cash and access to international markets. As a result, the deal prevented what experts believe would have been an Iranian balance-of-payments crisis had sanctions remained in 2013.⁶⁹ Since the final accord entered its implementation phase in January 2016, Iran's economy has been improving.

According to estimates by the International Money Fund (IMF), Iran underwent an "impressive recovery" and had a projected 6-percent growth rate for the Persian year 1395-1396 (March 2016 – March 2017).⁷⁰ Yet Tehran has also been the beneficiary of additional forms of relief. It received controversial cash payments from the Obama administration totaling \$1.7 billion⁷¹ to settle an arms dispute with the U.S.⁷² predating the 1979 Islamic revolution. In 2016, the United Nations lifted

⁶⁷ Susan Engel Rasmussen, "How Babak Zanjani Went From Iran's Top Sanctions Buster to Dead Billionaire Walking," *Newsweek*, March 14, 2016. (<http://www.newsweek.com/2016/03/25/babak-zanjani-iran-sanctions-corruption-execution-436360.html>)

⁶⁸ Shabnam von Hein, "Reform regime in Tehran faces corruption allegations," *Deutsche Welle* (Germany), September 3, 2016. (<http://www.dw.com/en/reform-regime-in-tehran-faces-corruption-allegations/a-19525195>)

⁶⁹ First noted by: Mark Dubowitz and Annie Fixler, "The White House Cedes More, Even As Iran's Economy Recovers," *Foundation for Defense of Democracies*, April 1, 2016. (<http://www.defenddemocracy.org/media-hit/dubowitz-mark-the-white-house-cedes-more-even-as-irans-economy-recovers/>)

⁷⁰ IMF data reported in: Ladane Nasseri, "Iran's 'Impressive Recovery' Clouded by 'Uncertainty,' IMF Says," *Bloomberg*, February 28, 2017. (<https://www.bloomberg.com/news/articles/2017-02-28/iran-s-impressive-recovery-clouded-by-uncertainty-imf-says>)

⁷¹ Jay Solomon and Carol E. Lee, "U.S. Sent Two More Planeloads of Cash to Iran After Initial Payment," *The Wall Street Journal*, September 6, 2016. (<http://www.wsj.com/articles/u-s-sent-two-more-planeloads-of-cash-to-iran-after-initial-payment-1473208256>)

⁷² For a helpful primer on those arms contracts, see: U.S. General Accounting Office, Report by the Comptroller General of the United States, "Financial and Legal Implications of Iran's Cancellation of Arms Purchase Agreements," July 25, 1979. (<http://www.iranwatch.org/sites/default/files/us-gao-cancellationagreement-072579.pdf>)

their sanctions on Bank Sepah,⁷³ a key Iranian financial institution that has underwritten much of the country's missile development, well in advance of the scheduled delisting.⁷⁴

An improved Iranian economy may sound like good news to those of us who wish the Iranian people well, but in reality, it provides additional resources for the regime to continue engaging in the same sort of behavior that has characterized the Islamic Republic since 1979. And nowhere in the JCPOA is the U.S. restricted from using diplomatic, informational, military, and economic (DIME) tools to challenge this behavior.

This view is not only held by those who have cited the fatal flaws of the JCPOA, but also by members of the previous U.S. administration who negotiated the deal. In an address at American University in August 2015, former President Barack Obama announced, "We will continue to have sanctions in place on Iran's support for terrorism and violation of human rights. We will continue to insist upon the release of Americans detained unjustly."⁷⁵ In September 2015, former Secretary of State John Kerry promised, "Have no doubt. The United States will oppose Iran's destabilizing policies with every national security tool available."⁷⁶ And during the August 2015 testimony of Adam Szubin, acting under secretary of Treasury for terrorism and financial intelligence, he explained, "We will be aggressively countering the array of Iran's other malign activities. The JCPOA in no way limits our ability to do so, and we have made our posture clear to both Iran and to our partners. ... Let there be no doubt about our willingness to continue enforcing these sanctions."⁷⁷

Yet despite this outpouring of support for enforcing coercive measures against Tehran's non-nuclear threats after agreeing to the JCPOA in July 2015, the U.S. has appeared at best hesitant, and at worst irresolute, in combatting these threats. For instance, after three Iranian missile tests between July and December 2015, at least one of which a UN Panel of Experts determined violated UNSCR 1929,⁷⁸ the U.S. Treasury Department responded with symbolic designations⁷⁹ pursuant

⁷³ "Bank Sepah," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/bank-sepah>)

⁷⁴ Simon Chin and Valerie Lincy, "U.S. Surrenders Powerful Financial Weapon to Counter Iran's Missile Program," *Iran Watch*, October 6, 2016. (<http://www.iranwatch.org/our-publications/policy-briefs/us-surrenders-powerful-financial-weapon-counter-irans-missile-program>)

⁷⁵ President Barack Obama, in: "Full text: Obama gives a speech about the Iran nuclear deal," *The Washington Post*, August 5, 2015. (https://www.washingtonpost.com/news/post-politics/wp/2015/08/05/text-obama-gives-a-speech-about-the-iran-nuclear-deal/?utm_term=.e817a12ada2d)

⁷⁶ Secretary of State John Kerry, in: Patricia Zengerle, "Obama scores policy win in securing votes for Iran nuclear deal," *Reuters*, September 2, 2015. (<http://www.reuters.com/article/us-iran-nuclear-congress-idUSKCN0R21L620150902>)

⁷⁷ Adam Szubin, "Written Testimony of Adam J. Szubin, Acting Under Secretary of Treasury for Terrorism and Financial Intelligence United States Senate Committee on Banking, Housing, And Urban Affairs," *Testimony before Senate Committee on Banking, Housing, and Urban Affairs*, August 5, 2015. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0144.aspx>)

⁷⁸ Louis Charbonneau, "Iran's October missile test violated U.N. ban: expert panel," *Reuters*, December 16, 2015. (<http://www.reuters.com/article/us-iran-missiles-un-exclusive-idUSKBN0TY1T920151216>)

⁷⁹ Behnam Ben Taleblu, "Sanctions Delay Lets Tehran Expand Missile Power," *Foundation for Defense of Democracies*, January 11, 2016. (<http://www.defenddemocracy.org/media-hit/behnam-ben-taleblu-sanctions-delay-lets-tehran-expand-missile-power/>)

to Executive Order 13382⁸⁰ in January 2016 and several additional designations in March 2016.⁸¹ This, in conjunction with the lack of pushback against Iran's ongoing human rights abuses,⁸² appears to indicate that the U.S. was intimidated by the Iranian narrative that any new non-nuclear sanctions would result in the collapse of the deal.

On July 20, 2015, part of Iran's official statement on the adoption of UNSCR 2231 read:⁸³

The Islamic Republic of Iran may reconsider its commitments under the JCPOA, if the effects of the termination of the UNSC sanction, or EU or US nuclear related sanctions or restrictive measures are impaired by continued application or the imposition of new sanctions with a nature and scope identical or similar to those that were in place prior to the Implementation Date, irrespective of whether such new sanctions are introduced on nuclear related or other grounds.

Iran's statement was predicated on one very problematic paragraph in the introduction of the JCPOA that reads, the U.S. and EU "will refrain from any policy specifically intended to directly and adversely affect the normalisation of trade and economic relations with Iran."⁸⁴

This clause, more than anything else, constitutes Iran's argument against the imposition of new sanctions, or even the enforcement of existing sanctions for non-nuclear reasons.⁸⁵ This paragraph should be interpreted narrowly, rather than broadly as Iran is trying to do. It is important to remember two key things about the deal. By design, the JCPOA's scope is limited to nuclear issues. Thus, Iran will only receive "nuclear sanctions" relief, and the U.S. is only committed to waiving/lifting sanctions, not advocating for Iranian business.⁸⁶ These factors circumscribe any interpretation that Iran can marshal about one clause in the deal.

⁸⁰ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Those Involved in Ballistic Missile Procurement for Iran," January 17, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/j10322.aspx>)

⁸¹ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Supporters of Iran's Ballistic Missile Program and Terrorism-Designated Mahan Air," March 24, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/j10395.aspx>); U.S. Department of the Treasury, Press Release, "Counter Terrorism Designations; Non-proliferation Designations," March 24, 2016. (<https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20160324.aspx>)

⁸² The last time the U.S. Treasury sanctioned an Iranian entity or individual for human rights abuses was in December 2014. U.S. Department of the Treasury, Press Release, "Treasury Designates Additional Individuals and Entities Under Iran-related Authorities," December 30, 2014. (<https://www.treasury.gov/press-center/press-releases/Pages/j19731.aspx>)

⁸³ "Iran statement following UNSC Resolution 2231 endorsing JCPOA," *Islamic Republic News Agency* (Iran), July 20, 2015. (<http://www7.irma.ir/cn/News/81688987/>)

⁸⁴ Joint Comprehensive Plan of Action, Vienna, July 14, 2015, paragraph 29, page 14.

(http://ccas.europa.eu/statements-ccas/docs/iran_agreement/iran_joint-comprehensive-plan-of-action_cn.pdf)

⁸⁵ Noted in: Behnam Ben Taleblu, "How Iran Ruined Nuclear Deals for Everyone," *The National Interest*, July 20, 2016. (<http://nationalinterest.org/feature/how-iran-ruined-nuclear-deals-everyone-17051>)

⁸⁶ Adam Szubin, Acting Undersecretary of the Treasury Department, said to this effect, the JCPOA is "an international arrangement, not a cashier's check." Quoted in: Jay Solomon, Asa Fitch, and Benoit Faucon, "Iran's Central Bank Chief Warns Banking-Access Issues Jeopardize Nuclear Deal," *The Wall Street Journal*, April 15, 2016. (<https://www.wsj.com/articles/irans-central-bank-chief-warns-banking-access-issues-jeopardize-nuclear-deal-1460745930>). A similar point was made by Mark Dubowitz during an FDD event. See transcript: "Keeping Iran in Check: How to Combat Iran's Illicit Activities," *Foundation for Defense of Democracies*, March 24, 2017. (http://www.defenddemocracy.org/content/uploads/documents/32417_Keeping_Iran_Check_Transcript.pdf)

To better defend and maintain the legitimate and legal space for the enforcement as well as imposition of non-nuclear sanctions while adhering to the deal, Congress and the administration should take three principled steps to counter Iran's interpretations of the accord.

First, the U.S. should call Iran's bluff. Iran has threatened that it retains other "options" aside from adhering to the JCPOA.⁸⁷ It has also claimed that non-nuclear sanctions violate the deal.⁸⁸ But accepting both Iranian arguments at face value fails to comprehend that Iran retains distinct incentives to stick with the JCPOA, as it gets more out of the deal than the U.S. does. The U.S. should remain resolute and not amend its strategy based solely on Iran's distorted arguments. The debate over renewing the Iran Sanctions Act (ISA) provides an instructive example. In November 2016, Iran's supreme leader said, "If this [the ISA] renewal is administered and becomes operational, it is certainly a violation of the JCPOA and [they] should know that the Islamic Republic of Iran will certainly display reactions against it."⁸⁹ Before the ISA renewal could be brought before the Joint Commission, Iran's President Rouhani escalated the matter further by threatening to develop nuclear maritime propulsion.⁹⁰ When the Joint Commission decided against Iran on the ISA renewal question,⁹¹ not only did Iran not walk away from the JCPOA,⁹² but it appeared to reframe the ISA renewal in its own media outlets.⁹³

Second, the U.S. should engage in an equally powerful counter-narrative campaign. Iran has complained about the West's purported refusal to provide economic relief.⁹⁴ Discussing Western banks' behavior in April 2016, the governor of Iran's central bank exclaimed, "They need to do whatever is needed to honor their commitments ... Otherwise, the [Iran nuclear deal] breaks up under its own terms."⁹⁵ Instead of accepting this narrative, Washington should push back by

⁸⁷ Noted by Iranian Foreign Minister Zarif in: "Iran says has options if nuclear deal fails," *Reuters*, November 10, 2016. (<http://www.reuters.com/article/us-usa-election-iran-zarif-idUSKBN13511X>)

⁸⁸ In October 2015, Iran's Supreme Leader Khamenei noted in a letter to President Rouhani that "any new sanctions on any level with any excuse (for example with the repetitive fake excuses of support for terrorism or human rights) pursued by any of the opposing countries in the negotiations will be considered a breach of the Bar-Jaam [JCPOA]." "Leader's letter to President Rouhani regarding the JCPOA," *Khamenei Website*, October 21, 2015. (<http://english.khamenei.ir/news/2336/Leader-s-letter-to-President-Rouhani-regarding-the-JCPOA>)

⁸⁹ Ayatollah Seyyed Ali Khamenei quoted in: "۱۰ ساله قطعاً نقض برجام است/ جمهوری اسلامی واکنش نشان خواهد داد (Implementing the 10 year renewal of sanctions is certainly a violation of the JCPOA/The Islamic Republic will display a reaction)," *Defa Press* (Iran), November 23, 2016. (<http://defapress.ir/fa/news/214602/اجرای-تمدید-۱۰-ساله-قطعاً-نقض-برجام-است-جمهوری-اسلامی-واکنش-نشان-خواهد-داد>)

⁹⁰ "تحریمهای ۱۰ ساله قطعاً نقض برجام است-جمهوری اسلامی واکنش نشان خواهد داد" (The President's important orders to Zarif and Salehi), *Islamic Republic News Agency* (Iran), December 13, 2016. (<http://www.irna.ir/fa/News/82344987/>)

⁹¹ European Union External Action, Press Release, "Press release on behalf of the Joint Commission of the JCPOA (10 January 2017)," January 10, 2017. ([https://ec.europa.eu/headquarters/headquarters-homepage_cn/18436/Press%20release%20on%20behalf%20of%20the%20Joint%20Commission%20of%20the%20JCPOA%20\(10%20January%202017\)](https://ec.europa.eu/headquarters/headquarters-homepage_cn/18436/Press%20release%20on%20behalf%20of%20the%20Joint%20Commission%20of%20the%20JCPOA%20(10%20January%202017)))

⁹² Shadia Nasralla, "Iran decides not to upset nuclear deal over U.S. sanctions extension," *Reuters*, January 10, 2017. (<http://www.reuters.com/article/us-iran-nuclear-idUSKBN14U2CL>)

⁹³ "JCPOA Parties: ISA Extension Not Affecting Removal of Anti-Iran Sanctions," *Fars News Agency* (Iran), January 11, 2017. (<http://en.farsnews.com/newstext.aspx?nn=13951022000738>)

⁹⁴ Also see the conditions impacting the return of banks in: Bozorgmehr Sharafedin, "Iran says European banks reluctant to resume transactions," *Reuters*, March 5, 2016. (<http://www.reuters.com/article/us-iran-europe-banks-idUSKCN0W70OX>)

⁹⁵ Valiollah Seif quoted in: Jay Solomon, Asa Fitch, and Benoit Faucon, "Iran's Central Bank Chief Warns Banking-Access Issues Jeopardize Nuclear Deal," *The Wall Street Journal*, April 15, 2016.

providing instances of banks refusing to deal with Iranian financial institutions because of their poor management and the resulting challenge of conducting proper due diligence to ensure that their Iranian interlocutor is not engaged in terror or proliferation finance. Iran's outdated banking system has also not made things easy. Despite desiring "financial legitimization"⁹⁶ to get off the FATF blacklist, the country's hardliners continue to view compliance with international bodies like FATF as "self-sanctioning."⁹⁷ Congress must challenge the notion that Iran is a responsible financial player by highlighting compliance risks.

And finally, U.S. officials should embrace the bully pulpit to put the spotlight on Iran. While this admittedly is not always done through statutory measures, the executive branch's recent actions are instructive. After news reports of an Iranian MRBM launch in December⁹⁸ and another in January,⁹⁹ the new administration not only designated Iranian and non-Iranian entities supportive of its ballistic missile program,¹⁰⁰ but it publically put Iran "on notice."¹⁰¹ To date, Iran has not test-fired another MRBM. Providing evidence that such measures work against Iran, the commander of Iran's IRGC-Aerospace Force recently noted that the reason Iran removed a space launch vehicle from a launch pad in early February¹⁰² was due to the concerns of "some men" over the potential American reaction.¹⁰³

What Non-Nuclear Sanctions Accomplish

Building on what is left of the sanctions architecture against Iran is essential if the U.S. is serious about challenging Tehran on non-nuclear grounds. In addition to the intuitive rationales in impeding Iran's progress on ballistic missiles, curbing its terrorism-sponsoring capabilities, and foiling its regional designs, targeting Iran's non-nuclear threats may facilitate closer defense,

(<https://www.wsj.com/articles/irans-central-bank-chief-warns-banking-access-issues-jeopardize-nuclear-deal-1460745930>)

⁹⁶ Noted by Mark Dubowitz in: "Transcript of press call on Iran's place on Financial Action Task Force (FATF)," *Foundation for Defense of Democracies*, accessed March 28, 2017. (<http://www.defenddemocracy.org/transcript-media-conference-call-on-the-financial-action-task-force-fatf-an/>)

⁹⁷ چگونه با رژیم که هدفش سرنگونی ماست، مذاکره کنیم/ بلای «یاسر عرفات» را سر ما هم می‌آورند" (*How to Negotiate with A Regime Whose Goal is Our Downfall/They Will Also Bring the Same Scourge [which they brought] on Yasser Arafat Upon Us*)," *Tasnim News Agency* (Iran), November 2, 2016. (<https://www.tasnimnews.com/fa/news/1395/08/12/1202756/-چگونه-با-رژیم-که-هدفش-سرنگونی-ماست-مذاکره-کنیم-بلا-یاسر-عرفات-را-سر-ما-هم-می-آورند>)

⁹⁸ Lucas Tomlinson and Jennifer Griffin, "Iran launched another ballistic missile in secret last month, US officials say," *Fox News*, January 31, 2017. (<http://www.foxnews.com/world/2017/01/31/iran-launched-another-ballistic-missile-in-secret-last-month-us-officials-say.html>)

⁹⁹ David E. Sanger, "Iran Launches a Missile, Testing Trump's Vows of Strict Enforcement," *The New York Times*, January 30, 2017. (https://www.nytimes.com/2017/01/30/world/middleeast/iran-missile-test.html?_r=0)

¹⁰⁰ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Supporters of Iran's Ballistic Missile Program and Iran's Islamic Revolutionary Guard Corps – Qods Force," February 3, 2017. (<https://www.treasury.gov/press-center/press-releases/Pages/as0004.aspx>)

¹⁰¹ The White House, Office of the Press Secretary, "Statement by the National Security Advisor," February 1, 2017. (<https://www.whitehouse.gov/the-press-office/2017/02/01/statement-national-security-advisor>)

¹⁰² Lucas Tomlinson and Jennifer Griffin, "EXCLUSIVE: Iran pulls missile from launchpad after apparent prep for launch, US officials say," *Fox News*, February 7, 2017. (<http://www.foxnews.com/world/2017/02/07/exclusive-iran-pulls-missile-from-launch-pad-after-apparent-prep-for-launch-u-s-officials-say.html>)

¹⁰³ See statements by Commander Hajizadeh in: "اقلیان با یک تشر، موشک ماهوار هیر را به انبار بردند!" (*With [the mention of] a single threat, the men took the satellite launch missile into storage*)," *Kayhan* (Iran), March 10, 2017. (<http://kayhan.ir/fa/news/99832/اقلیان-با-یک-تشر-موشک-ماهوار-هیر-را-به-انبار-بردند>)

intelligence, security, and political cooperation between Washington and its allies, particularly as the JCPOA continues to be implemented. Using non-nuclear sanctions against the battery of threats posed by Iran also signals that Washington views Tehran as more than just a nuclear proliferation problem to be managed at a future date. It communicates that there is a larger strategy guiding Washington's Iran policy, which, at a bare minimum, involves defanging Iran.

There is significant space for Congress to play a role in this regard. The U.S. should sanction all entities owned or controlled by the IRGC or the supreme leader, both of which received a windfall in the aftermath of the nuclear deal.¹⁰⁴ Similarly, the U.S. needs to find creative ways to offset the comparative advantage Iran's IRGC-linked businesses have against the genuine, but increasingly marginalized, Iranian private sector. But most of all, the U.S. must increase the pressure on the Islamic Republic through punishment, coercion, and deterrence.

1. **Punishment** – By levying non-nuclear sanctions on Iran, Congress can punish Tehran's leaders for their illicit and destabilizing *past* behavior (July 2015 – present). Framing economic measures against Iran as punitive can help enforce the norms that the U.S. believes Iran has transgressed.
2. **Coercion** – Congressional sanctions can help course-correct the behavior of the entities by gradually increasing the costs of continuing to engage in the sanctionable behavior. Non-nuclear sanctions can therefore be instrumental in helping to stop *present* or *ongoing* activities.
3. **Deterrence** – Lastly, sanctioning Iran on non-nuclear grounds also has a deterrent or forestalling effect. The U.S. can deter *prospective* Iranian bad behavior by credibly demonstrating the costs of intransigence. It also signals to other U.S. adversaries that continuously violating norms comes with a cost, and the U.S. is not in the business of issuing empty threats.

While policymakers should appreciate the punishing and deterring impact sanctions can have on a target, the ideal impact non-nuclear sanctions should have is the coercive one. Namely, one where Iran ceases engaging in the behavior that the sanctions were levied to terminate.

In a recent report about American economic power, my colleague Eric Lorber explained the importance of matching sanctions relief to a change in conduct. The JCPOA provided a case study in what not to do. While the Obama administration obtained a nuclear deal, it did not obtain a change in Iranian illicit financial practices that would encourage private banks to reengage with Iran.¹⁰⁵ To preempt making this same mistake again, policymakers should consider the goals of

¹⁰⁴ Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler, and Amir Toumaj, "How the Nuclear Deal enriched Iran's Revolutionary Guard Corps," *Foundation for Defense of Democracies*, October 2016.

(http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf); Yeganeh Torbati, Bozorgmehr Sharafedin, and Babak Dehghanpisheh, "After Iran's nuclear pact, state firms win most foreign deals," *Reuters*, January 19, 2017. (<http://www.reuters.com/article/us-iran-contracts-insight-idUSKBN15328S>)

¹⁰⁵ Eric Lorber, "Securing American Interests: A New Era of Economic Power," *Foundation for Defense of Democracies*, February 2017, pages 19-20.
(http://www.defenddemocracy.org/content/uploads/documents/CSIF_Securing_American_Interests.pdf)

statutory sanctions – namely, if they are coercive, punitive, or both – prior to levying them. This consideration can help policymakers design the most effective conduct-based sanctions.¹⁰⁶

Examples of Prospective Offenses that Can Be Addressed with Non-Nuclear Sanctions

While this testimony has outlined three major Iranian non-nuclear threat portfolios, each area presents unique challenges that policymakers should be prepared to counter. Below are four hypothetical scenarios based on Iran's current capabilities Iran already has or behavior in which the regime has previously engaged or possibly could engage.¹⁰⁷ In all four cases, statutory measures can play a leading role by informing and developing U.S. policy aimed at altering Iranian behavior. In all scenarios, U.S. responses are deemed to be fully consistent with the letter and spirit of the JCPOA.

1. Iranian journalists who blog about ongoing corruption in Iran are targeted by vigilantes egged on by regime officials.

- a. *Why this is a threat:* Iran's brutal crackdowns on its own people are an affront to U.S. values. But the U.S. also retains a strategic interest in siding with the Iranian people. Failing to stand up for those who risk their lives by engaging in investigative journalism only provides ammunition to Iran's repressive apparatus. Journalists should be permitted to engage in investigative reporting, particularly to try to push their government to be more honest and accountable.
- b. *What Congress can do:* Congress can use the recently-passed Global Magnitsky Act to issue asset freezes and visa bans for the persons and entities involved in the crackdown.¹⁰⁷ Using the Global Magnitsky Act communicates a strong signal to the Iranian population that Congress is not afraid to use instruments of U.S. national security to stand up for the rights of the Iranian people. Similarly, should reporting on Iran's corruption activities yield significant findings about the illicit foreign financial activities of Iran's leaders, those leaders should also be targeted.

2. Iran publically (and successfully) tests a solid-fuel MRBM.

- a. *Why this is a threat:* Iran's continued ballistic missiles launches violate the Annex of UNSCR 2231. Iran's ballistic missile arsenal is already the Middle East's

¹⁰⁶ Eric Lorber, "Securing American Interests: A New Era of Economic Power," *Foundation for Defense of Democracies*, February 2017, page 16.

(http://www.defenddemocracy.org/content/uploads/documents/CSIF_Securing_American_Interests.pdf)

¹⁰⁷ Described in: Emanuele Ottolenghi, Saeed Ghasseminjad, Annie Fixler, and Amir Toumaj, "How the Nuclear Deal enriched Iran's Revolutionary Guard Corps," *Foundation for Defense of Democracies*, October 2016, page 32.

(http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf); Samuel Rubinfeld, "U.S.

Congress Passes Global Magnitsky Act Sanctions," *The Wall Street Journal*, December 8, 2016.

(<http://blogs.wsj.com/riskandcompliance/2016/12/08/u-s-congress-passes-global-magnitsky-act-sanctions/>)

largest¹⁰⁸ and can reach ranges of up to 1,500 miles from Iranian territory.¹⁰⁹ Iran last tested a solid-fuel MRBM in 2011 called the Sejil-2. The two-stage Sejil-2 easily meets the Missile Technology Control Regime's (MTCR) payload/range metric of a "nuclear-capable" ballistic missile.¹¹⁰

- b. *What Congress can do:* Congress has a vast array of options on the ballistic missile front. First, pursuant to the FY2017 NDAA, it should request from the administration an immediate assessment of the launch to obtain analytical data about the test.¹¹¹ Next, it should request a report on A) the key sectors of the Iranian economy that support Iran's domestic research, production, testing, storage, maintenance, and transportation of ballistic missiles, and B) public or private Iranian entities that are active in their country's ballistic missile program. Congress can then issue sector-specific sanctions on select portions of the Iranian economy,¹¹² gradually raising the costs of missile testing.

3. A foreign financial institution which does business in the U.S. processes transactions on behalf of an IRGC-owned and/or -controlled company.

- a. *Why this is a threat:* Due to the nuclear deal, the IRGC, its affiliated companies, and its veteran-operated and -affiliated businesses are experiencing a financial windfall, even though sanctions on the IRGC remain in place. Designated entities cannot be permitted to use the formal financial system to engage in illicit activities like providing material support to terror. Such activities endanger the rules-based global financial system that the U.S. leads.
- b. *What Congress can do:* Congress can call upon the administration to designate Iran's IRGC pursuant to Executive Order 13224, which sanctions those who offer material support for, and/or engage in, terrorism.¹¹³ Additionally, Congress can also call for the establishment of an IRGC foreign financial institution "watch list,"¹¹⁴ a public list that the U.S. could share with partner foreign financial institutions that

¹⁰⁸ James R. Clapper, "Statement for the Record, Worldwide Threat Assessment of the US Intelligence Community," *Testimony before the Senate Armed Services Committee*, February 9, 2016.

(https://www.dni.gov/files/documents/SASC_Unclassified_2016_ATA_SFR_FINAL.pdf)

¹⁰⁹ Sejil," *Military Edge*, accessed March 29, 2017. (<http://militaryedge.org/armaments/sejil/>)

¹¹⁰ Kelsey Davenport, "The Missile Technology Control Regime at a Glance," *Arms Control Association*, August 2016. (<https://www.armscontrol.org/factsheets/mtr>)

¹¹¹ See relevant portion of FY2017 NDAA in: National Defense Authorization Act for Fiscal Year 2017, Pub. L. 114-328, 114 U.S.C. §1226, page 488-489. (<https://www.congress.gov/114/bills/s2943/BILLS-114s2943enr.pdf>)

¹¹² First recommended by: Saeed Ghassminejad, "Iran's Ballistic Missile Program and Economic Sanctions," *Foundation for Defense of Democracies*, March 2016.

(http://www.defenddemocracy.org/content/uploads/documents/Ballistic_Missile_Sanctions.pdf)

¹¹³ U.S. Department of the Treasury, Office of Foreign Assets Control, "Terrorism: What You Need To Know About US Sanctions," accessed March 29, 2017. (<https://www.treasury.gov/resource-center/sanctions/Programs/Documents/terror.pdf>)

¹¹⁴ Builds on the idea noted by Mark Dubowitz, in: Mark Dubowitz, "The Iran Nuclear Agreement: One Year Later," *Testimony before the Senate Committee on Foreign Relations*, July 14, 2016, page 37. (http://www.defenddemocracy.org/content/uploads/documents/Dubowitz_One_Year_Later_Full.pdf)

have processed transactions for IRGC-owned/operated businesses during the JCPOA implementation-era.

4. An Iranian arms shipment to Yemen is intercepted.

- a. *Why this is a threat:* Although not technically a proxy of Tehran,¹¹⁵ Yemen's Houthi rebels receive weapons from Iran. Gulf Cooperation Council members and other U.S. partners have formed a maritime blockade and intercepted multiple Iranian arms shipments to the Houthis via sea.¹¹⁶ In response, Iran has adapted to using land routes via Oman to traffic weapons.¹¹⁷ These weapons transfers help keep the Houthi insurgency raging and bleed Iran's Sunni Arab regional competitor, Saudi Arabia. Iran's shipment of arms to the Houthis also violates UNSCR 2231.¹¹⁸
- b. *What Congress can do:* Congress should request a full review of Iran's support for the Houthi rebels. In so doing, Congress can request information about persons and entities that produce weapons or facilitated their transfer and authorize sanctions against these persons. Congress can also inquire about the likely role the IRGC plays in these transfers, and again seek to have it designated pursuant to Executive Order 13224 as well as under Executive Order 13611, which blocks the "property of persons threatening the peace, security, or stability of Yemen."¹¹⁹

Recommendations

For policymakers to successfully combat Iran's non-nuclear threats, they must be cognizant that they are operating in a world where a nuclear deal is accentuating those threats. From the moment Iran agreed to the JCPOA in July 2015, it gambled that it would have enough leverage against the international community to continue its destabilizing activities relatively unencumbered. To counter this and prove Iran wrong, the U.S. must use coercive diplomacy underwritten by a whole-of-government approach.

The list below offers select policy options to that effect, some of which my FDD colleagues have previously suggested before Congress.

¹¹⁵ April Longley Alley and Joost Hilberman, "The Houthis are not Hezbollah," *Foreign Policy*, February 27, 2017. (<http://foreignpolicy.com/2017/02/27/the-houthis-are-not-hezbollah/>)

¹¹⁶ C.J. Chivers and Eric Schmitt, "Arms Seized Off Coast of Yemen Appear to Have Been Made in Iran," *The New York Times*, January 10, 2017. (https://www.nytimes.com/2017/01/10/world/middleeast/yemen-iran-weapons-houthis.html?_r=0); Courtney Kube, "U.S. Officials: Iran Supplying Weapons to Yemen's Houthi Rebels," *NBC News*, October 27, 2016. (<http://www.nbcnews.com/news/us-news/u-s-officials-iran-supplying-weapons-yemen-s-houthi-rebels-n674181>); William Maclean, "Weapons bound for Yemen seized on Iranian boat: coalition," *Reuters*, September 30, 2015. (<http://www.reuters.com/article/us-yemen-security-idUSKCN0RU0R220150930>)

¹¹⁷ Yara Bayoumy and Phil Stewart, "Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman — officials," *Reuters*, October 20, 2016. (<http://www.reuters.com/article/us-yemen-security-iran-idUSKCN12K0CX>)

¹¹⁸ See statements by former UN Secretary General in: United Nations Security Council, "Second report of the Secretary-General on the implementation of Security Council resolution 2231 (2015)," December 30, 2015. (http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2016/1136)

¹¹⁹ Executive Order 13611, Presidential Documents, 77 Federal Register 29533, May 18, 2012. (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/yemen_eo.pdf)

1. **Target Iran's regional partners.** Despite not having any formal defense pacts or alliances, the Islamic Republic of Iran has spent blood and treasure to keep the Assad regime in place. The U.S. should work to weaken the Syrian regime, either forcing Iran to invest more in that theater to bleed it of resources, or force it to cease its support. Specifically, the U.S. should continue to maintain, enforce, and escalate sanctions on the Assad regime by drawing on existing authorities under the International Emergency Economic Powers Act (IEEPA), a useful tool in designing sanctions. The number of members of the Assad regime targeted for visa bans and asset freezes should also be increased. Lastly, Congress should sanction entities that provide things like jet fuel,¹²⁰ which enable the Syrian war machine.
2. **Designate the entire IRGC pursuant to Executive Order 13224.**¹²¹ In 2007, the Treasury Department designated the IRGC's Quds Force pursuant to Executive Order 13224 for supporting terror groups.¹²² While the U.S. reportedly entertained targeting the entire IRGC based on the same executive order,¹²³ it still has not yet taken this step. Presently, the IRGC is targeted under several executive orders for nuclear and missile proliferation and for human rights abuses.¹²⁴ In 2010, the U.S. Department of Defense noted, "Elements of Iran's Islamic Revolutionary Guard Corps (IRGC) have provided direct support to terrorist groups, assisting in the planning of terrorist acts or enhancing terrorist group capabilities."¹²⁵ Additional proof of the IRGC's involvement in terrorism and regional destabilization is provided by Iran's deployment of IRGC-Ground Forces (IRGC-GF) to die in Syria.¹²⁶ Designating the whole IRGC as a terrorist organization can signal that the U.S. remains committed to targeting the organization and defending the architecture of secondary sanctions already in place to combat Iran's non-nuclear threats.

¹²⁰ Note the case of smuggled jet fuel in: Guy Faulconbridge and Jonathan Saul, "Exclusive: Russian tankers defy EU ban to smuggle jet fuel to Syria – sources," *Reuters*, November 22, 2016. (<http://www.reuters.com/article/us-mideast-crisis-syria-fuel-exclusive-idUSKBN13H1T8>)

¹²¹ Emanuele Ottolenghi, "Time to designate Iran's Revolutionary Guards as terror group," *The Hill*, October 20, 2015. (<http://thehill.com/blogs/pundits-blog/defense/257399-time-to-designate-irans-revolutionary-guards-as-terror-group>)

¹²² U.S. Department of the Treasury, Press Release, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (<https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>)

¹²³ Noted in: David Crist, *The Twilight War: The Secret History of America's Thirty-Year Conflict with Iran*, (New York: The Penguin Press: 2012).

¹²⁴ U.S. Department of the Treasury, Press Release, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (<https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>); U.S. Department of the Treasury, Press Release, "Treasury Sanctions Iranian Security Forces for Human Rights Abuses," June 9, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1204.aspx>); U.S. Department of the Treasury, Press Release, "Fact Sheet: New Executive Order Targeting Human Rights Abuses Via Information Technology," April 23, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1547.aspx>)

¹²⁵ U.S. Department of Defense, "Unclassified Report on Military Power of Iran," April 2010, page 8. (https://fas.org/man/eprint/dod_iran_2010.pdf)

¹²⁶ Ali Alfoneh and Michael Eisenstadt, "Iranian Casualties in Syria and the Strategic Logic of Intervention," *The Washington Institute for Near East Policy*, March 11, 2016. (<http://www.washingtoninstitute.org/policy-analysis/view/iranian-casualties-in-syria-and-the-strategic-logic-of-intervention>)

3. **Call for an investigation into Iran's activities in Yemen and the feasibility of designating the IRGC under Executive Order 13611.** Executive Order 13611 targets those who "threaten the peace, security, or stability of Yemen."¹²⁷ Numerous Iranian arms shipments to Yemen's Houthi rebels have been intercepted by a U.S.-allied maritime coalition. These arms shipments undoubtedly endanger the security and stability of Yemen. Given the IRGC's omnipresent role in Iranian security policy, Congress should call for an investigation into Iran's support for the Houthis and the role of the IRGC or IRGC-linked entities in Iran in producing and transporting weapons for the Houthis.
4. **Require reporting on Iranian attempts to engage in proliferation finance and illicit procurement.**¹²⁸ According to a report from Germany's domestic intelligence in 2016, Iran-linked entities the prior year engaged in "illegal proliferation-sensitive procurement activities ... at what is, even by international standards, a quantitatively high level."¹²⁹ It is worth recalling that for the first half of 2015, Iran was finalizing the JCPOA nuclear deal with the P5+1. Congress should require a report from the intelligence community about Iran's financing measures for this illicit procurement as well as a full review of post-deal attempts to engage in proliferation finance and illicit procurement.
5. **Develop an "IRGC Watch List."**¹³⁰ Countries supportive of international non-proliferation efforts often retain "watch lists"¹³¹ of entities where there is reason to believe "their exports might potentially be of concern on end-use grounds."¹³² These watch lists set a useful precedent. Congress could support efforts to enforce non-nuclear sanctions by requiring the U.S. government to develop a public list of entities suspected of having financial ties with any IRGC-owned/operated business or financial institution. This list will help the private sector better evaluate risk and avoid transactions with suspicious parties. The same should be done with respect to entities contributing to Iran's missile program.
6. **Contest Iran's narrative about all its non-nuclear threats and inhibit its financial legitimization campaign.**¹³³ Since the nuclear deal, Iran has been arguing that it deserves

¹²⁷ Executive Order 13611, Presidential Documents, 77 Federal Register 29533, May 18, 2012.

(https://www.treasury.gov/resource-center/sanctions/Programs/Documents/yemen_eo.pdf)

¹²⁸ An endeavor described in: Financial Action Task Force, "Proliferation Financing Report," June 18, 2008.

([http://www.fatf-](http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf)

[gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf))

¹²⁹ German Federal Ministry of the Interior, "2015 Annual Report on the Protection of the Constitution Facts and Trends," June 28, 2016, page 30. (<https://www.verfassungsschutz.de/embed/annual-report-2015-summary.pdf>)

¹³⁰ Mark Dubowitz, "The Iran Nuclear Agreement: One Year Later," *Testimony before the Senate Committee on Foreign Relations*, July 14, 2016, page 37.

(http://www.defenddemocracy.org/content/uploads/documents/Dubowitz_One_Year_Later_Full.pdf)

¹³¹ In the case of the UK, their "Iran List" was the JCPOA's latest victim. See: UK Department for International Trade, Export Control Organisation, "Notice to exporters 2017/08: Iran list removed from GOV.UK," March 22, 2017. (<https://www.gov.uk/government/publications/notice-to-exporters-201708-iran-list-removed-from-govuk/notice-to-exporters-201708-iran-list-removed-from-govuk>)

¹³² UK Department for Business Innovation & Skills, Export Control Organisation, "Iran List: WMD End-Use Control: Licence Applications for Iran," October 31, 2015. (<http://www.iranwatch.org/library/governments/united-kingdom/departments-business-innovation-skills/iran-list>)

¹³³ Mark Dubowitz, "The Iran Nuclear Agreement: One Year Later," *Testimony before the Senate Committee on Foreign Relations*, July 14, 2016, pages 33-35.

(http://www.defenddemocracy.org/content/uploads/documents/Dubowitz_One_Year_Later_Full.pdf)

to enjoy the full benefits of being a member of the international community in good standing, albeit without the requisite responsibilities. Until the U.S. sees a change in Iran's illicit conduct, it should not relent. Lawmakers and the administration should remind the international community of the importance of (as well as roadblocks to) doing sufficient due-diligence on Iranian entities and Iran's banking sector. Similarly, international bodies should be cautioned against lowering their standards on Iranian compliance issues just because the Islamic Republic negotiated a favorable nuclear deal.

7. **Use the Global Magnitsky Act to target corruption and stand up for human rights.**¹³⁴ The Global Magnitsky Act is now public law and can be used to protect American banks and businesses from financially corrupt entities in Iran and those who engage in systemic human rights abuses. The act enables the U.S. to engage in a high-profile "naming and shaming campaign" against those who have struck it rich through illicit means. The goal of this campaign would be to expose those actors for corruption and human rights abuses and to deter foreign financial institutions from doing business with them until their behavior changes.
8. **Call on the administration to provide reporting on Iran's ballistic missiles.**¹³⁵ For Congress to check Iran's growing arsenal of ballistic missiles, it needs as much information as possible on missile tests and the entities and persons who support these tests but have not yet been sanctioned. Congress should review how Iran's Ministry of Defense and Armed Forces Logistics (MODAF) and IRGC affiliates continue to be active in the ballistic missile program, and if any foreign or Iranian entities have not been sanctioned for financial or material support to the missile program. Additionally, Congress should require reporting on Iranian attempts to illicitly procure missile technology and related material from abroad, be it through jurisdictions of weak central authority or businesses that to hide their real end user.
9. **Develop sector-specific sanctions on Iranian domestic industries active in the ballistic missile program.**¹³⁶ Much attention has been paid to export controls and proliferation finance as a way to retard the Iranian missile program from outside-in. But Iran is already fairly self-sufficient in the production of select missiles that can target U.S. military facilities in the region. Congress should develop a series of graduated sanctions that choke off critical nodes in the research, production, development, and transport sectors that work on Iran's ballistic missiles. These areas can be broadened to include industries like metallurgy and mining. Such sanctions complement the web of export controls already in place in the U.S. and many countries around the world.

¹³⁴ Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler, and Amir Toumaj, "How the Nuclear Deal enriched Iran's Revolutionary Guard Corps," *Foundation for Defense of Democracies*, October 2016, page 32. (http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf)

¹³⁵ Mark Dubowitz, "The Iran Nuclear Agreement: One Year Later," *Testimony before the Senate Committee on Foreign Relations*, July 14, 2016, page 35. (http://www.defenddemocracy.org/content/uploads/documents/Dubowitz_One_Year_Later_Full.pdf)

¹³⁶ Saeed Ghasseminejad, "Iran's Ballistic Missile Program and Economic Sanctions," *Foundation for Defense of Democracies*, March 2016. (http://www.defenddemocracy.org/content/uploads/documents/Ballistic_Missile_Sanctions.pdf)

10. Support efforts to amend language in the Annex of UNSC Resolution 2231. UNSCR

2231 has arms export/transfer and missile test bans that expire in a little more than three to six years from now. To amend this, the U.S. should commit to unwinding conduct-based sanctions only after Iran's behavior has changed, not when a political agreement is at hand. Because the language on those prohibitions is in the UNSCR's Annex and technically not in the JCPOA, the U.S. can preempt criticism by calling for a resolution that builds on the concerns about Iranian arms transfers and missile tests. Congress should lend public support to such an initiative and call for the UN to extend those bans by two more years, and require not a single violation to be recorded in those two years. Otherwise, the ban will automatically renew until there is a period without incidents.

To defend longstanding American interests on issues of terrorism, regional stability, human rights, illicit finance, and ballistic missiles, the U.S. should both enforce and grow its arsenal of non-nuclear sanctions to contest Iran's non-nuclear threats. Such actions are consistent with past bipartisan statutory measures. They are also important in the JCPOA implementation-era as the accord cannot be permitted to be the sole document defining U.S. policy towards Iran.

I thank you very much for your time and attention today, as well as your kind invitation to testify. I look forward to answering your questions.

Questions for the Record

Hearing: Joint MP&T and Terrorism and Illicit Finance

“Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran”

Date: Tuesday, April 4, 2017**Requesting Member:** Rep. French Hill (AR-2)

Question for Mr. Behnam Ben Taleblu

In Mr. Taleblu’s written testimony he recommends that the US government sanction all entities owned or controlled by the IRGC or the supreme leader. It is Rep. French Hill’s understanding that some of these entities were delisted in the JCPOA, such as EIKO (The Execution of Imam Khomeini’s Order), the Supreme Leader’s holding company.

Would relisting entities like EIKO be in violation of the JCPOA? What would the impact of relisting EIKO or other entities delisted under the JCPA? Do we know what EIKO is used for? Do you have a list of entities that the United States should consider relisting?

The nuclear deal lines the pockets of the worst actors in the Islamic Republic by removing sanctions on certain types of trade with Iran and by “de-listing” a plethora of entities from U.S. sanctions lists.¹ At the same time, however, it does not preclude Washington from targeting Iran’s other “non-nuclear” threats. The U.S., therefore, must work to expand the remaining, non-nuclear sanctions architecture by targeting what the JCPOA does not address – namely Iran’s ballistic missiles, terrorism and regional destabilization, human rights, and illicit financial activities.²

In order to undermine the core of the regime’s corruption and illicit finance efforts, Washington should target EIKO (aka as Setad³), which is widely-known as the holding company for Iran’s Supreme Leader, Ayatollah Seyyed Ali Khamenei. While EIKO was delisted by the JCPOA,⁴ there are grounds for re-issuing sanctions.

According to the U.S. Department of the Treasury, which had designated EIKO pursuant to Executive Order 13599, EIKO has earned, “billions of dollars in profit... through the exploitation of favorable loan rates from Iranian banks and the sale and management of real

¹ See, for example: Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler, and Amir Toumaj, “How the Iran Nuclear Deal Enriches the Revolutionary Guards,” *Foundation for Defense of Democracies*, October 2016. (http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf)

² Recommended in: Behnam Ben Taleblu, “Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran,” *Testimony before the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittees*, April 4, 2017.

(http://www.defenddemocracy.org/content/uploads/documents/40317_BBT_Testimony.pdf)

³ Steve Stecklow, Babak Dehghanpishch and Yeganeh Torbati, “Khamenei controls massive financial empire built on property seizures,” *Reuters*, November 11, 2013. (<http://www.reuters.com/investigates/iran/#article/part1>)

⁴ Emanuele Ottolenghi, Saeed Ghasseminejad, “Obama’s Gift to the Ayatollah,” *The Weekly Standard*, August 4, 2015. (<http://www.weeklystandard.com/obamas-gift-to-the-ayatollah/article/1005066>)

estate holdings, including selling property donated to EIKO. EIKO has also confiscated properties in Iran that were owned by Iranians not living in Iran full-time. In addition to generating revenue for the Iranian leadership, EIKO has been tasked with assisting the Iranian Government's circumvention of U.S. and international sanctions.⁵ This damning overview of EIKO's activities further came into the spotlight when a *Reuters* investigation revealed the diverse holdings of EIKO in industries ranging from agriculture to telecommunications.⁶

U.S. removed EIKO from the Specially Designated Nationals (SDN) list on Implementation Day (January 16, 2016) pursuant to the JCPOA.⁷ While the organization is no longer being "subject to secondary sanctions," U.S. persons remain banned from engaging in business with EIKO under Executive Order 13599.⁸

Relisting EIKO is not a violation of the nuclear accord. EIKO was not sanctioned for its role in Iran's nuclear program, and therefore was not subject to nuclear sanctions – the only type of sanctions that the former administration claimed the JCPOA addressed. In fact, EIKO should never have been delisted in the first place. Should the U.S. Congress decide to relist EIKO and its subsidiaries, it can do so incrementally and strategically. First, it should target EIKO and all its subsidiaries pursuant to the Global Magnitsky Act, which sanctions those responsible for corruption and human rights abuses. This would signal both to the regime and the Iranian people that the U.S. will stand up against government-sponsored corruption and human rights violations in Iran. Congress and the administration could also decide re-list the entity under the same authority under which it was previously sanctioned and impose secondary sanctions against those foreign entities who do business with EIKO.

Admittedly, the optics of relisting EIKO under the exact same authority could cause some consternation among U.S. allies because it may appear to that the U.S. is re-imposing nuclear sanctions lifted by the JCPOA. Even though Iran will claim this move violates the deal, it does not transgress the letter or spirit of the accord. Rather, it is consistent with longstanding U.S. national security policy towards Tehran. The U.S. must avoid being bullied by creative Iranian arguments about what measures do and do not violate the accord.⁹ Still, it may be more useful and expedient in this context to use Global Magnitsky and then adopting a wait-and-see attitude.

⁵ U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j1968.aspx>)

⁶ Steve Stecklow, Babak Dehghanpisheh and Yeganeh Torbati, "Khamenei controls massive financial empire built on property seizures," *Reuters*, November 11, 2013. (<http://www.reuters.com/investigates/iran/#article/part1>)

⁷ Joint Comprehensive Plan of Action, Vienna, July 14, 2015, Attachment 3 – Annex 2. (http://collections.internetmemory.org/haeu/20160313172652/http://eeas.europa.eu/statements-eeas/docs/iran_agreement/annex_1_attachments_en.pdf)

⁸ Capitalization fixed in this quote. See EIKO entry in: U.S. Department of the Treasury, Office of Foreign Assets Control, "Sanctions List Search," accessed May 19, 2017. (<https://sanctionssearch.ofac.treas.gov/Details.aspx?id=6097>)

⁹ Noted in: Behnam Ben Taleblu, "Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran," *Testimony before the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittees*, April 4, 2017. (http://www.defenddemocracy.org/content/uploads/documents/40317_BBT_Testimony.pdf). Also see Iran's strategy in: Behnam Ben Taleblu and Amir Toumaj, "Iran Set A Trap," *U.S. News & World Report*, September 28, 2016. (<https://www.usnews.com/opinion/articles/2016-09-28/iran-has-set-a-snare-to-further-tilt-the-nuclear-deal-in-its-favor>)

Key EIKO subsidiaries that the U.S. Treasury Department identified¹⁰ and are delisted under Attachment III of Annex II of the JCPOA are: Tosee Eqtesad Ayandehsazan Company (TEACO), Tadbir Economic Development Company (or Tadbir Group), Rey Investment Company, Reyco GMBH, MCS International, MCS Engineering, Golden Resources Trading Company L.L.C., Cylinder System Ltd., One Vision Investments 5 (Pty) Ltd., and One Class Properties (Pty) Ltd.

¹⁰ U.S. Department of the Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership,” June 4, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

Is there any evidence that Iran used the Administration's cash shipment of \$400 million—which was sent on the same day Iran released five American prisoners to further worsen the conflict in Syria? Did President Obama make increased financing of Assad and Hezbollah more or less likely with this payment?

It is unlikely that we will find unclassified evidence that this money, or portions thereof, was directed towards terrorist activities given the opacity of Iran's defense budget, especially off-the-books funding to the Islamic Revolutionary Guard Corps' (IRGC) Qods Force and their proxies like Lebanese Hezbollah. However, it is reasonable to conclude that this cash payment of \$400 million, which was part of a larger \$1.7 billion dollar settlement from the U.S. in cash to Iran in 2016, will allow additional funds to flow to Iranian proxies and operations in the Levant. Specifically, this \$1.7 billion was directed by Iran's parliament to the government's 2016-17 fiscal year defense budget for use toward general military activities, though the final allocation and distribution of the funds remains unclear. Former Secretary of State John Kerry also stated "Some of (Iran's unfrozen assets) will end up in the hands of the IRGC or other entities, some of which are labeled terrorists."

As mentioned in my written testimony, the Iranian-Syrian relationship is a fundamental part of the perceived "axis of resistance" against the West and Israel in the region. Without a stronghold in Syria—or in Lebanon through Hezbollah—Iran would be unable to carry out its deterrent and destabilizing operations against Israel and would lose influence over key Shia populations beyond its borders. As the Islamic Republic pursues regional hegemony through "exportation of the revolution," loss of influence in Syria would be devastating to the regime. Thus, leadership in Tehran considers IRGC operations in Syria to be existentially critical and will spare no expense to prop up the Assad regime.

Providing these funds -- as well as the billions more in assets unfrozen by the JCPOA -- in the form of cash allows for an easier flow of financing to Assad and Lebanese Hezbollah. Given Iran's continued challenges in utilizing the international financial system, cash is extremely valuable to Tehran in a variety of environments, above all for supporting its proxy groups, terrorism and other illicit activities. Since the Obama Administration paid the Iranian regime in euros, Swiss francs, and other non-dollar hard currencies, the money is also essentially untraceable. This is why it is so concerning that the Obama Administration provided these funds in cash, when other means could have been used, such as through third party electronic transfer in Europe or Japan.

United States Senate

WASHINGTON, DC 20510

March 30, 2017

The Honorable James B. Comey, Jr.
Director
Federal Bureau of Investigation
935 Pennsylvania Avenue NW
Washington, D.C. 20535

The Honorable Jeff Sessions
Attorney General of the United States
U.S. Department of Justice
950 Pennsylvania Avenue NW
Washington, D.C. 20535

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Secretary Mnuchin, Attorney General Sessions, and Director Comey:

We are writing to express serious concerns about the questions raised by a March 13, 2017 *New Yorker* magazine article by Adam Davidson entitled, "Donald Trump's Worst Deal." We urge you to investigate the questions it raises about: 1) potential violations by the Trump Organization of the Foreign Corrupt Practices Act (FCPA); 2) the possibility that one of the construction entities involved with the developers of the project may have been an Islamic Revolutionary Guard Corps (IRGC) front organization; and 3) whether the IRGC may have been the ultimate source of certain payments made to the Trump Organization, which would constitute a clear violation of US sanctions law.

Mr. Davidson's article chronicles the Trump Organization's relationship with Azerbaijan's Mammadov family in their joint development of the Trump Tower in Baku. It appears that the lack of due diligence by the Trump Organization described in the article exposed President Trump and his organization to notoriously corrupt Azerbaijani oligarchs, and may also have exposed the Trump Organization to the IRGC. Even though the Trump Organization appears to have withdrawn from the Baku Tower deal, serious questions remain unanswered about the Trump Organization's potential criminal liability. Therefore, we would appreciate your response to the following questions regarding the laws under your enforcement purview.

Department of Justice

The Foreign Corrupt Practices Act (FCPA) was enacted to establish anti-corruption controls for business dealings with foreign officials. Since the business relationships described in the Davidson article could involve violations of the FCPA, we urge the Department to assess whether any violations of law occurred. In particular, we ask that you determine the following:

1. Whether the Trump Organization failed to conduct appropriate FCPA due diligence in assessing business relationships with the Mammadov family (including Ziya Mammadov, the Azeri Minister of Transportation who is a billionaire despite a reported government salary of \$12,000 annually) and prospects for the Trump Tower project, involving Ziya's son Anar, and Ziya's brother Elton Mammadov, an influential Member of Parliament. Such failures may constitute potential FCPA violations.

2. Whether the Trump Organization acted with willful blindness regarding its business partners' illicit acts in the Trump Tower Baku dealings, including the Mammadov family, and whether the Trump Organization could face criminal prosecution.
3. If the Justice Department determines that no investigation is necessary, please explain why not.

Department of the Treasury

Mr. Davidson's article details the relationships that exist between the Mammadov family and the IRGC, and between what is described as a possible IRGC-controlled construction firm (the Azarpasillo firm) and the Mammadovs, and the Trump Organization. These relationships raise serious questions about whether the Trump Organization may have become entangled with an IRGC front organization in violation of U.S. sanctions. We urge you to investigate the Trump Organization's foreign partners in the Trump Tower Baku deal, as well as the internal controls of the Trump Organization, and provide us with your conclusions, where appropriate. In particular:

1. We request a briefing, in coordination with the Director of National Intelligence, on any relationship between the Mammadov family and the IRGC, as well as the Mammadov family's relationship to the Azarpasillo firm, its chairman Keyumars Darvishi, and his family, and their relationship to the IRGC.
2. We ask you to direct the Office of Foreign Assets Control to open an investigation into whether the Trump Organization maintained proper compliance controls in this case, and to assess whether or not the Trump Organization violated US sanctions law by conducting transactional activity with a group linked to the IRGC.

Thank you for your attention to this matter. We look forward to hearing from you.

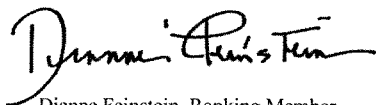
Sincerely,



Sherrod Brown, Ranking Member
Committee on Banking, Housing and
Urban Affairs



Ben Cardin, Ranking Member
Committee on Foreign Relations



Dianne Feinstein, Ranking Member
Committee on the Judiciary

cc: Mike Piwowar, Acting Chairman, U.S. Securities and Exchange Commission

The Washington Post

National Security

Blackwater founder held secret Seychelles meeting to establish Trump-Putin back channel

By Adam Entous, Greg Miller, Kevin Sieff and Karen DeYoung

April 3

The United Arab Emirates arranged a secret meeting in January between Blackwater founder Erik Prince and a Russian close to President Vladimir Putin as part of an apparent effort to establish a back-channel line of communication between Moscow and President-elect Donald Trump, according to U.S., European and Arab officials.

The meeting took place around Jan. 11 — nine days before Trump's inauguration — in the Seychelles islands in the Indian Ocean, officials said. Though the full agenda remains unclear, the UAE agreed to broker the meeting in part to explore whether Russia could be persuaded to curtail its relationship with Iran, including in Syria, a Trump administration objective that would be likely to require major concessions to Moscow on U.S. sanctions.

Though Prince had no formal role with the Trump campaign or transition team, he presented himself as an unofficial envoy for Trump to high-ranking Emiratis involved in setting up his meeting with the Putin confidant, according to the officials, who did not identify the Russian.

Prince was an avid supporter of Trump. After the Republican convention, he contributed \$250,000 to Trump's campaign, the national party and a pro-Trump super PAC led by GOP mega-donor Rebekah Mercer, records show. He has ties to people in Trump's circle, including Stephen K. Bannon, now serving as the president's chief strategist and senior counselor. Prince's sister Betsy DeVos serves as education secretary in the Trump administration. And Prince was seen in the Trump transition offices in New York in December.

U.S. officials said the FBI has been scrutinizing the Seychelles meeting as part of a broader probe of Russian interference in the 2016 U.S. election and alleged contacts between associates of Putin and Trump. The FBI declined to comment.

The Seychelles encounter, which one official said spanned two days, adds to an expanding web of connections between Russia and Americans with ties to Trump — contacts that the White House has been reluctant to acknowledge or explain until they have been exposed by news organizations.

“We are not aware of any meetings, and Erik Prince had no role in the transition,” said Sean Spicer, the White House press secretary.

A Prince spokesman said in a statement: “Erik had no role on the transition team. This is a complete fabrication. The meeting had nothing to do with President Trump. Why is the so-called under-resourced intelligence community messing around with surveillance of American citizens when they should be hunting terrorists?”

Prince is best known as the founder of Blackwater, a security firm that became a symbol of U.S. abuses in Iraq after a series of incidents, including one in 2007 in which the company’s guards were accused — and later criminally convicted — of killing civilians in a crowded Iraqi square. Prince sold the firm, which was subsequently re-branded, but has continued building a private paramilitary empire with contracts across the Middle East and Asia. He now heads a Hong Kong-based company known as the Frontier Services Group.

ADVERTISING

Prince would probably have been seen as too controversial to serve in any official capacity in the Trump transition or administration. But his ties to Trump advisers, experience with clandestine work and relationship with the royal leaders of the Emirates — where he moved in 2010 amid mounting legal problems for his American business — would have positioned him as an ideal go-between.

The Seychelles meeting came after separate private discussions in New York involving high-ranking representatives of Trump with both Moscow and the Emirates.

The White House has acknowledged that Michael T. Flynn, Trump's original national security adviser, and Trump adviser and son-in-law Jared Kushner met with the Russian ambassador to the United States, Sergey Kislyak, in late November or early December in New York.

Flynn and Kushner were joined by Bannon for a separate meeting with the crown prince of Abu Dhabi, Sheikh Mohamed bin Zayed al-Nahyan, who made an undisclosed visit to New York later in December, according to the U.S., European and Arab officials, who spoke on the condition of anonymity to discuss sensitive matters.

In an unusual breach of protocol, the UAE did not notify the Obama administration in advance of the visit, though officials found out because Zayed's name appeared on a flight manifest.

Officials said Zayed and his brother, the UAE's national security adviser, coordinated the Seychelles meeting with Russian government officials with the goal of establishing an unofficial back channel between Trump and Putin.

Officials said Zayed wanted to be helpful to both leaders, who had talked about working more closely together, a policy objective long advocated by the crown prince. The UAE, which sees Iran as one of its main enemies, also shared the Trump team's interest in finding ways to drive a wedge between Moscow and Tehran.

Zayed met twice with Putin in 2016, according to Western officials, and urged the Russian leader to work more closely with the Emirates and Saudi Arabia — an effort to isolate Iran.

At the time of the Seychelles meeting and for weeks afterward, the UAE believed that Prince had the blessing of the new administration to act as its unofficial representative. The Russian participant was a person whom Zayed knew was close to Putin from his interactions with both men, the officials said.

Scrutiny over Russia

When the Seychelles meeting took place, official contacts between members of the incoming Trump administration and the Russian government were under intense scrutiny, both from federal investigators and the press.

Less than a week before the Seychelles meeting, U.S. intelligence agencies released a report accusing Russia of intervening clandestinely during the 2016 election to help Trump win the White House.

The FBI was already investigating communications between Flynn and Kislyak. The Washington Post's David Ignatius first disclosed those communications on Jan. 12, around the time of the Seychelles meeting. Flynn was subsequently fired by Trump for misleading Vice President Pence and others about his discussions with Kislyak.

Yousef Al Otaiba, the UAE's ambassador in Washington, declined to comment.

Government officials in the Seychelles said they were not aware of any meetings between Trump and Putin associates in the country around Jan. 11. But they said luxury resorts on the island are ideal for clandestine gatherings like the one described by the U.S., European and Arab officials.

"I wouldn't be surprised at all," said Barry Faure, the Seychelles secretary of state for foreign affairs. "The Seychelles is the kind of place where you can have a good time away from the eyes of the media. That's even printed in our tourism marketing. But I guess this time you smelled something."

Trump has dismissed the investigations of Russia's role in the election as "fake news" and a "witch hunt."

The level of discretion surrounding the Seychelles meeting seems extraordinary given the frequency with which senior Trump advisers, including Flynn and Kushner, had interacted with Russian officials in the United States, including at the high-profile Trump Tower in New York.

Steven Simon, a National Security Council senior director for the Middle East and North Africa in the Obama White House, said: "The idea of using business cutouts, or individuals perceived to be close to political leaders, as a tool of diplomacy is as old as the hills. These unofficial channels are desirable precisely because they are deniable; ideas can be tested without the risk of failure."

Current and former U.S. officials said that while Prince refrained from playing a direct role in the Trump transition, his name surfaced so frequently in internal discussions that he seemed to function as an outside adviser whose opinions were valued on a range of issues, including plans for overhauling the U.S. intelligence community.

He appears to have particularly close ties to Bannon, appearing multiple times on the Breitbart satellite radio program and website that Bannon ran before joining the Trump campaign.

In a July interview with Bannon, Prince said those seeking forceful U.S. leadership should "wait till January and hope Mr. Trump is elected." And he lashed out at President Barack Obama, saying that because of his policies "the terrorists, the fascists, are winning."

Days before the November election, Prince appeared on the Breitbart radio program, saying that he had "well-placed sources" in the New York City Police Department telling him they were preparing to make arrests in the investigation of former congressman Anthony Weiner (D-N.Y.) over allegations he exchanged sexually explicit texts with a minor. Flynn tweeted a link to the Breitbart report on the claim. No arrests occurred.

Prince went on to make unfounded assertions that damaging material recovered from Weiner's computers would implicate Hillary Clinton and her close adviser, Huma Abedin, who was married to Weiner. He also called Abedin an "agent of influence very sympathetic to the Muslim Brotherhood."

Prince and his family were major GOP donors in 2016. The Center for Responsive Politics reported that the family gave more than \$10 million to GOP candidates and super PACs, including about \$2.7 million from his sister, DeVos, and her husband.

Prince's father, Edgar Prince, built his fortune through an auto-parts company. Betsy married Richard DeVos Jr., heir to the Amway fortune.

Erik Prince has had lucrative contracts with the UAE government, which at one point paid his firm a reported \$529 million to help bring in foreign fighters to help assemble an internal paramilitary force capable of carrying out secret operations and protecting Emirati installations from terrorist attacks.

Focus on Iran

The Trump administration and the UAE appear to share a similar preoccupation with Iran. Current and former officials said that Trump advisers were focused throughout the transition period on exploring ways to get Moscow to break ranks with Tehran.

"Separating Russia from Iran was a common theme," said a former intelligence official in the Obama administration who met with Trump transition officials. "It didn't seem very well thought out. It seemed a little premature. They clearly had a very specific policy position, which I found odd given that they hadn't even taken the reins and explored with experts in the U.S. government the pros and cons of that approach."

Michael McFaul, former U.S. ambassador to Russia, said he also had discussions with people close to the Trump administration about the prospects of drawing Russia away from Iran. "When I would hear this, I would think, 'Yeah that's great for you guys, but why would Putin ever do that?'" McFaul said. "There is no interest in Russia ever doing that. They have a long relationship with Iran. They're allied with Iran in fighting in Syria. They sell weapons to Iran. Iran is an important strategic partner for Russia in the Middle East."

Following the New York meeting between the Emiratis and Trump aides, Zayed was approached by Prince, who said he was authorized to act as an unofficial surrogate for the president-elect, according to the officials. He wanted Zayed to set up a meeting with a Putin associate. Zayed agreed and proposed the Seychelles as the meeting place because of the privacy it would afford both sides. "He wanted to be helpful," one official said of Zayed.

Wealthy Russians and Emirati royalty have a particularly large footprint on the islands. Signs advertising deep-sea fishing trips are posted in Cyrillic. Russian billionaire Mikhail Prokhorov owns North Island, where Prince William and Catherine, Duchess of Cambridge, went on their honeymoon in 2011. Sheikh Khalifa bin Zayed al-Nahyan, president of the UAE, built a hilltop palace for himself with views across the chain of islands.

The Emiratis have given hundreds of millions of dollars to the Seychelles in recent years for causes including public health and affordable housing. But when the Emirati royal family visits, they are rarely seen.

"The jeep comes to their private jet on the tarmac and they disappear," said one Seychellois official who spoke on the condition of anonymity because he did not want to be seen as criticizing the Emiratis.

Zayed, the crown prince, owns a share of the Seychelles' Four Seasons, a collection of private villas scattered on a lush hillside on the main island's southern shore, overlooking the Indian Ocean, according to officials in the Seychelles. The hotel is tucked away on a private beach, far from the nearest public road.

Current and former U.S. officials who have worked closely with Zayed, who is often referred to as MBZ, say it would be out of character for him to arrange the Jan. 11 meeting without getting a green light in advance from top aides to Trump and Putin, if not the leaders themselves. "MBZ is very cautious," said an American businessman who knows Zayed and spoke on the condition of anonymity because of the sensitivity of the subject. "There had to be a nod."

The Seychelles meeting was deemed productive by the UAE and Russia, but the idea of arranging additional meetings between Prince and Putin's associates was dropped, officials said. Even unofficial contacts between Trump and Putin associates had become too politically risky, officials said.

Sieff reported from the Seychelles. Julie Tate, Devlin Barrett, Matea Gold, Tom Hamburger and Rosalind S. Helderman contributed to this report.

Correction: An earlier version of this story incorrectly said that Prince appeared on Bannon's radio show in November. Bannon had left to run Trump's campaign by then. Prince appeared on the Breitbart satellite radio program.

Adam Entous writes about national security, foreign policy and intelligence for The Post. He joined the newspaper in 2016 after more than 20 years with The Wall Street Journal and Reuters, where he covered the Pentagon, the CIA, the White House and Congress. He covered President George W. Bush for five years after the September 11, 2001, attacks.

Greg Miller covers intelligence agencies and terrorism for The Washington Post. [Follow @gregpmiller](#)

Kevin Sieff has been The Post's Africa bureau chief since 2014. He served previously as the bureau chief in Kabul and had covered the U.S.-Mexico border. [Follow @ksieff](#)

Karen DeYoung is associate editor and senior national security correspondent for the Washington Post. [Follow @karendeyoung1](#)

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